

## PILLAR III

Disclosure to the public

2020





# Contents

<b>Introduction</b>	2
<b>Section 1</b> - Risk management objectives and policies (Art. 435 CRR)	5
<b>Section 2</b> - Scope of application (Art. 436 CRR)	31
<b>Section 3</b> - Own funds (Art. 437 CRR)	35
<b>Section 4</b> - Capital requirements (Art. 438 CRR)	42
<b>Section 5</b> - Exposure to counterparty credit risk (Art. 439 CRR)	48
<b>Section 6</b> - Capital buffers (Art. 440 CRR)	49
<b>Section 7</b> - Credit risk adjustments (Art. 442 CRR)	51
<b>Section 8</b> - Unencumbered assets (Art. 443 CRR)	62
<b>Section 9</b> - Use of ECAIs (Art. 444 CRR)	65
<b>Section 10</b> - Exposure to market risk (Art. 445 CRR)	68
<b>Section 11</b> - Operational risk (Art. 446 CRR)	70
<b>Section 12</b> - Exposures in equities not included in the trading book (Art. 447 CRR)	74
<b>Section 13</b> - Exposure to interest rate risk on positions not included in the trading book (Art. 448 CRR)	75
<b>Section 14</b> - Exposure to securitization positions (Art. 449 CRR)	79
<b>Section 15</b> - Remuneration policy (Art. 450 CRR)	81
<b>Section 16</b> - Leverage (Art. 451 CRR)	93
<b>Section 17</b> - Use of credit risk mitigation techniques (Art. 453 CRR)	97
<b>Section 18</b> - NPE Disclosure (EBA Guidelines)	98
<b>Section 19</b> - Disclosure on exposures subject to measures applied in light of the COVID-19 crisis	101
<b>Certification by the Financial Reporting Officer</b>	104

## Introduction

The Basel Committee Accords ("Basel 3") aimed at strengthening banks' capacity to absorb shocks from financial and economic tensions, improving risk management and governance and strengthening banks' transparency and reporting, entered into force in European Union law with effect from January 1, 2014.

This being said, at Community level, the contents of "Basel 3" were adopted with two distinct pieces of legislation:

- ▶ Regulation (EU) No. 575/2013 dated June 26, 2013 ("CRR") - Part eight "Disclosure by institutions" (Arts. 431 - 455) and Part ten, Title I, Chapter 3, "Transitional provisions for disclosure of own funds" (Art. 492) - which governs Pillar I prudential supervision mechanisms and public disclosure rules (Pillar III);
- ▶ Directive 2013/36/EU of June 26, 2013 ("CRD IV"), which concerns, inter alia, conditions for access to banking, freedom of establishment and freedom to provide services, the prudential supervision process and additional capital reserves.

The above-mentioned European regulation became applicable in the Italian legal system on the basis of Bank of Italy Circular No. 285 "*Supervisory Provisions for Banks*" of December 17, 2013 as subsequently amended, which implements the provisions of the CRR and the CRD IV.

Furthermore, the Committee maintained the three-pillar approach underpinning the previous Basel 2 capital accord, expanding it to increase the quantity and quality of intermediaries' capital.

Specifically:

- ▶ **Pillar I** defines the system of capital requirements that banks are required to meet to deal with typical banking risks: credit risk (which also includes counterparty risk), market risk and operational risk.  
This aspect has been strengthened by introducing a definition of higher quality capital and requiring additional capital conservation buffers, with the inclusion of rules on liquidity risk management, for both the short term (Liquidity Coverage Ratio - LCR) and the long term (Net Stable Funding Ratio - NSFR), and the introduction of a limit on leverage;
- ▶ **Pillar II** requires banks to set up strategies, control processes and tools for determining, in addition to Pillar I risks, the adequacy of current and future capital. It is the Supervisory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action. The BFF Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, as an autonomous assessment of current and future capital adequacy and the liquidity risk governance and management system in relation to the risks assumed and company strategies;
- ▶ **Pillar III** establishes specific periodic disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for the identification, measurement and management of such risks. This aspect has also been revised to introduce increased transparency requirements and more detailed information on the breakdown of regulatory capital and on how the Banking Group calculates its capital ratios.

Pursuant to Article 433 of the CRR, banks shall publish the disclosures required by EU regulations at least on an annual basis, in conjunction with the financial statements.

To this end, the Board of Directors of Banca Farmafactoring has approved a dedicated procedure named "Procedure for Disclosure to the Public (Pillar III)".

Pursuant to this procedure, the disclosure to the public should be:

- ▶ approved by the Board of Directors before it is made public;
- ▶ published on the website [www.bffgroup.com](http://www.bffgroup.com) (Investor Relations Section) at least once a year by the deadline for the publication of the financial statements, and therefore within thirty days of the date of approval of the financial statements by the Shareholders' Meeting.

The Banca Farmafactoring Banking Group (hereinafter, also the “BFF Banking Group”) operates primarily in the management and financing of receivables of suppliers of the Public Administration and, in particular, public healthcare systems. The Group is active in Italy, Portugal, Greece, Croatia and France through Banca Farmafactoring, in Spain through BFF Finance Iberia and in Poland, the Czech Republic and Slovakia through BFF Polska and its associates (the “BFF Polska Group”).

Banca Farmafactoring meets the obligation of disclosure to the public for the Banca Farmafactoring Banking Group and drafts this document on a consolidated basis based on the above-mentioned regulatory provisions. In accordance with the provisions of the CRR, the scope of consolidation, used solely for prudential supervision purposes, envisages that BFF Luxembourg S.à r.l. is the parent. Therefore, the relative tables will include the information referring to the Banking Group in accordance with the Consolidated Law on Banking (“T.U.B.”) as well as the most significant data of the CRR Group reported to the Bank of Italy.

In order to prepare the financial statements and the Pillar III report, for tables that do not refer to prudential supervisory reporting, the reference will continue to be the Banking Group pursuant to the T.U.B.

Please note that:

- ▶ Information on the risks to which the Banking Group is exposed and on risk management and control policies is also provided in Part E of the Notes to the Consolidated financial statements at December 31, 2020;
- ▶ Information relating to Own funds and banking capital ratios, relating both to the CRR Group and the Banking Group pursuant to the T.U.B., is also published in Part F of the Notes to the 2020 Consolidated financial statements;
- ▶ Information on governance is also provided in the “Report on Corporate Governance and Ownership Structure” published in the “Governance” section of the Banking Group website [www.bffgroup.com](http://www.bffgroup.com);
- ▶ Information regarding the Banking Group’s remuneration and incentive policies is also provided in the “Report on Remuneration” published in the “Governance” section of the Banking Group website.

Please note that, following the elimination of BFF Luxembourg Sarl's shareholding in the Bank in February 2021, the Bank of Italy, via a notice dated February 23, 2021 removed the CRR Group mentioned above from the register of banking groups.

In addition, following the merger of DEPObank S.p.A. on March 5, 2021, the Disclosure to the Public prepared by the merged Bank will be published on the BFF Bank website as soon as possible.

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

This document is broken down into 16 sections, which provide qualitative and quantitative information referring to the date of December 31, 2020. The paragraphs for which there is no informational content are not published.

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

The summary statement of the sections required by the reference regulation is laid out below, with an indication of the relevant information published in this document.

Section	Description/Reference to CRR Articles	Qualitative information	Quantitative information	Page
1	Risk management objectives and policies - Art. 435	X	N/A (*)	7
2	Scope of application - Art. 436	X	N/A (*)	34
3	Own funds - Art. 437	X	X	38
4	Capital requirements - Art. 438	X	X	45
5	Exposure to counterparty credit risk - Art. 439	X	X	51
6	Capital buffers - Art. 440	X	X	52
7	Credit risk adjustments - Art. 442	X	X	54
8	Unencumbered assets - Art. 443	X	X	64
9	Use of ECAs - Art. 444	X	X	67
10	Exposure to market risk - Art. 445	X	X	70
11	Operational risk - Art. 446	X	X	72
12	Exposures in equities not included in the trading book - Art. 447	X	X	76
13	Exposure to interest rate risk on positions not included in the trading book - Art. 448	X	X	77
14	Exposure to securitization positions - Art. 449	X	X	81
15	Remuneration policy - Art. 450	X	X	83
16	Leverage - Art. 451	X	X	96
17	Use of credit risk mitigation techniques - Art. 453	X	X	100
18	NPE Disclosure (EBA Guidelines)	X	X	101
19	Disclosure on exposures subject to measures applied in light of the COVID-19 crisis	X	X	105

(\*) "n.a.", i.e. "Not applicable"

# Section 1

## Risk management objectives and policies (Art. 435 CRR)

### Qualitative disclosure

#### Introduction

BFF Banking Group has adopted suitable corporate governance tools and adequate management and control mechanisms in order to mitigate the risks to which it is exposed.

These measures are part of the governance of the organization and of the internal control system, aimed at ensuring management practices grounded in efficiency, effectiveness and fairness, covering every type of business risk, consistent with the characteristics, dimensions and complexity of the business activities carried out by the Group.

With this in mind, the Group formalized its risk management policies and periodically reviews them to ensure their effectiveness over time. It constantly monitors the functioning of the risk management and control processes.

Such policies define:

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

The corporate bodies of Banca Farmafactoring-as BFF 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 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.

#### The internal control system

The CEO is 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 execute the transactions, also with the support of IT procedures.

**Second-level** controls are aimed at ensuring the proper implementation of the risk management and compliance process, including the risk of money laundering and terrorist financing, and are entrusted to the Risk Management Function and the Compliance and AML Function of the Parent Company, which, in accordance with the provisions of the current prudential supervisory regulations, perform the following main tasks:

- ▶ **Risk Management:** this function ensures the consistency of the risk measurement and control systems with the processes and methodologies of company activities by coordinating with the relevant company structures; oversees the realization of the internal process for determining capital adequacy; monitors the controls over the management of risks, in order to define methods to measure those risks; assists corporate bodies in designing the Risk Appetite Framework (RAF); verifies that the limits assigned to the various operating functions are being observed; and checks that the operations of the individual areas are consistent with the assigned risk and return objectives.
- ▶ **Compliance and Anti-Money Laundering (AML):** this function 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 branches and/or subsidiaries - continuously verifying whether internal processes and procedures are adequate in preventing such risk and identifying the relevant risks for the Bank and the Subsidiaries; 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, also by continuously identifying the applicable rules in this area; verifying the consistency of 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 anti-money laundering regulations for the prevention of the use of the financial system to launder the proceeds of criminal activity and terrorist financing.

At the Group level, the Risk Management Function and the Compliance and AML Function are part of the Internal Control System, cooperating in the process of defining and implementing risk governance policies through an adequate risk management process, each within the scope of their responsibilities. The managers of the second level control Functions are placed in an adequate functional hierarchical position and are not involved in the operating activities they are called upon to control; the duties and respective responsibilities are governed within the pertinent internal regulations of the functions.

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

- ▶ Cooperating with the corporate bodies in defining the overall risk management system;
- ▶ Ensuring that each Subsidiary has an adequate risk management system, consistent with the Group's strategy and policy and with the relative reference regulations;
- ▶ Providing a proper assessment of the capital absorbed, of the relative adequacy and regulatory indicators, by defining processes and procedures to meet every type of present and future risk, taking into account strategies and context changes;
- ▶ Overseeing the implementation of the Risk Management Process, as defined in the Group risk management policy, and ascertaining that it is being complied with;
- ▶ Monitoring the adequacy and effectiveness of the actions taken to resolve weaknesses found in the risk management system;
- ▶ Submitting periodic reports to the corporate bodies on the activities carried out and providing them with consulting on risk management issues;



- ▶ Handling the measurement of risks, including market risks, underlying relationships with related parties, verifying compliance with the limits assigned to the various Company Structures, checking the consistency of the operations of each unit with the levels of risk propensity defined in the RAF.

The Risk Management Function is also responsible for the overall vision of all risks assumed by the Group and includes the specific skillsets relating to the management of the various types of risk, ensuring the promotion of a company-wide risk culture. In particular, the Risk Management Function:

- ▶ Is responsible for defining and updating the methodologies and tools for the identification, measurement, assessment, control, management and mitigation of the Pillar I and Pillar II Risks to which the Group Companies are exposed;
- ▶ Is involved in the definition of the RAF, the risk governance policies and the various phases of the Risk Management Process as well as the establishment of operational limits on the assumption of the various types of risk. In this regard, it also has the duty of proposing the quantitative and qualitative parameters necessary to define the RAF, which also refer to stress scenarios and, in the case of changes in the bank's internal and external operating context, the adjustment of such parameters;
- ▶ Defines and enacts the annual activity plan and informs the Parent Company's Board of Directors on an annual basis about the performance of its activities;
- ▶ Monitors the effective risk assumed by the Group Companies on an ongoing basis and its consistency with risk targets, as well as respect for the operating limits on the assumption of the various types of risk, as a result optimising the capital allocation processes;
- ▶ Handles the updating of the "Contingency Funding Plan" and oversees the monitoring of the relative contingency indicators;
- ▶ Verifies the adequacy of the RAF and the operating limits defined therein, as well as the adequacy of the Risk Management Process;
- ▶ Defines shared metrics for the assessment and control of operational risks consistent with the RAF, coordinating with the Compliance and AML Function and with the ICT O.U.;
- ▶ Defines methods for the assessment and control of reputational risks, coordinating with the Compliance and AML Function and with the Company Structures that are most exposed;
- ▶ Supports the corporate bodies in the assessment of strategic risk, monitoring the significant variables;
- ▶ Ensures the consistency of the risk measurement and control systems with the processes and methodologies for the assessment of company activities by coordinating with the relevant Company Structures;
- ▶ Develops, applies and ensures the application of indicators capable of identifying anomalies and inefficiencies in risk measurement and control systems;
- ▶ Analyses risks linked to new products and services and those deriving from entry into new operating and market segments;
- ▶ Monitors portfolio diversification at Group level, in order to avoid excessive exposure concentration;
- ▶ Develops preventive opinions on the consistency with the RAF of Major Operations (MO), possibly by acquiring the opinion of other Functions, O.U.s and/or Departments involved in the Risk Management Process, depending on the nature of the transaction;
- ▶ Monitors the adequacy and effectiveness of the actions taken to resolve weaknesses found in the Risk Management Process;
- ▶ Performs second-level controls on the guarantees acquired to secure credit exposures;
- ▶ Evaluates the consistency of the classification of performing and non-performing loans;
- ▶ Calculates value adjustments on the Group's performing loans consistent with the approaches defined by IFRS 9;

- ▶ Evaluates the consistency of generic and specific value adjustments applied by the Group and the adequacy of the debt collection process;
- ▶ Proposes to the CEO the definition of the qualitative and quantitative Stage Allocation criteria and monitors them;
- ▶ Performs a performance analysis to evaluate the qualitative evolution of the credit risk of each Group portfolio in line with IFRS 9 criteria;
- ▶ Oversees and contributes to the development, as the second-level control function - and therefore separate from the operating units - of the process of determining the internal funds transfer pricing system, in line with the requirements of the Supervisory Provisions in force and taking into account the specific operational characteristics of the Group;
- ▶ Prepares adequate information flows for the corporate bodies and the other Company Control Functions of the Parent Company; in particular, the Manager of the Risk Management Function informs the Manager of the Internal Audit Function of the weaknesses that may be of interest for audit activities.

Furthermore, the Risk Management Function is responsible for managing the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) and acts as the planning, guidance and coordination structure for such processes. In this context, the Risk Management Function is responsible for:

- ▶ Identifying the risks (and the relative sources) to be subjected to assessment on the basis of an analysis of the regulatory context, the reference market, operations and the business lines;
- ▶ Observing the effective risk assumed by the Group on an ongoing basis and its consistency with risk targets, as well as respect for the operating limits on the assumption of the various types of risk;
- ▶ Identifying and documenting the differences between regulatory methodologies and the methodologies used for Pillar II Risks, any time they are developed/revised;
- ▶ Defining and applying stress testing methodologies;
- ▶ Measuring Internal Capital against each risk and determining total Internal Capital;
- ▶ Generating the reporting to be sent to the Organizational Units involved in the process;
- ▶ Reconciling total capital with Own Funds, identifying, amongst the capital elements deemed appropriate for the coverage of total Internal Capital, the items linked to Own Funds;
- ▶ Identifying and documenting the composition of total capital available against the total Internal Capital requirements and verifying the relative coverage;
- ▶ Preparing the documentation relating to the methodologies and models used, for the purpose of internal approval by the Parent Company's Board of Directors;
- ▶ Drafting the ICAAP/ILAAP Report;
- ▶ Performing the self-assessment within the ICAAP/ILAAP Report;
- ▶ Monitoring the activities planned and the realization timing relating to the areas for improvement identified during the ICAAP/ILAAP self-assessment and is also responsible for their full implementation.

Lastly, within the scope of the Recovery Plan, the Risk Management Function is responsible for:

- ▶ Preparing the definition and updating of the overall recovery framework structure and the Recovery Plan, with the support of the O.U.s involved in various bases;

- ▶ Handling the phase of proposing the definition of the Recovery Plan, with reference to:
  - Recovery indicators and the relative calibration thresholds to be included in the Recovery Plan;
  - Recovery scenarios (definition of quantitative and qualitative metrics);
  - Evaluation of the capital and liquidity impacts of the recovery options to be included in the Recovery Plan, in coordination with the Parent Company's Finance and Administration Department;
- ▶ Coordinating the operating phases for the preparation and formalization of the Recovery Plan;
- ▶ Interacting with the Bank of Italy on the matter, particularly with regard to any requests for clarification or additional information;
- ▶ Monitoring recovery indicators;
- ▶ Supporting the CEO or another Managing Director on the Board of Directors in the verification and monitoring of the proper management of the state of crisis.

In addition to other tasks, the **Compliance and Anti-Money Laundering Function** is responsible for:

- ▶ Identifying on an ongoing basis the rules applicable to the Group and evaluating and measuring their impact on company processes and procedures, identifying the company functions and structures concerned and informing them in that regard;
- ▶ Ensuring the mitigation of compliance risk, in order not to incur legal or administrative sanctions, significant financial losses or reputational damage as a result of violations of mandatory provisions (laws, regulations) or internal regulations (e.g., bylaws, codes of conduct, corporate governance codes);
- ▶ Identifying the compliance risks deriving from the introduction of new regulations, preventively evaluating their potential impact on processes and procedures; monitoring the adoption of organizational adaptations (structures, processes and procedures) required to prevent compliance risk and verify their effectiveness;
- ▶ Collaborating in the definition of policies and procedures for mitigating legal and reputational risks linked to the failure to comply with internal and external regulations and, when necessary, identifying suitable improvements and/or corrections, and verifying their adequacy and proper application;
- ▶ Verifying the existence and reliability, on an ongoing basis, of suitable procedures and systems for ensuring respect for all legal obligations and those laid out by internal regulations;
- ▶ Providing consulting and assistance to the corporate bodies on all matters in which compliance risk plays a role;
- ▶ Collaborating in personnel training activities;
- ▶ Spreading a corporate culture inspired by principles of integrity, fairness and regulatory compliance;
- ▶ Supporting company structures for the definition of compliance risk assessment methodologies.

The Risk Management Function and the Compliance and AML Function - organizationally and functionally autonomous and distinct - report to the Chief Executive Officer and are independent of the internal audit function, as it performs audits on them.

Internal audits are carried out by the Group's Internal Audit function, directly reporting to the Board of Directors. The Internal Audit function carries out independent controls, not only at the Parent Company and the foreign branches, but also at the subsidiary BFF Finance Iberia, S.A., under a specific service agreement which governs the provision of the audit service. Moreover, the Group's Internal Audit Function performs management and coordination with respect to the Internal Audit Function of the subsidiary BFF Polska S.A., whose head functionally reports to the Head of the Group function.

The function regulation approved by the Board of Directors specifies that the Internal Audit function, within the third-level controls, evaluates the overall functioning of the internal control system and brings to the attention of the corporate bodies any possible improvements, with particular reference to the RAF (Risk Appetite Framework), the process for the management of risks and the tools for their measurement and control.

The Head of the Internal Audit function has the necessary autonomy and is independent of the operating structures, in compliance with Bank of Italy's regulation on Internal Controls, the Corporate Governance Code and internal regulations. He presents a long-term audit plan to the corporate bodies which includes the compulsory activities established by reference regulations (remuneration and incentive policies and practices, important outsourced functions, ICCAP, ILAAP, ICT, etc.) as well as the actions identified according to a risk-based approach; the audit plan is subject to annual review. Actual reporting on audit activities generally takes place on a quarterly basis.

The Bank has an Organization, Management and Control Model pursuant to Legislative Decree No. 231/2001, consisting of a General Part and Special Parts that lay out the activities, controls and reporting mechanisms for each organizational unit/company body, including the foreign branches, with a collegial **Supervisory Body** that oversees its adequacy through periodic audit activities.

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

The Spanish subsidiary BFF Finance Iberia, S.A. adopted its own Organizational Model in accordance with Article 31-*bis* of the Spanish Penal Code, analogous to the Italian Model, with the resulting identification of a "*Supervisory Board*" with functions similar to those of the Supervisory Body.

For the Polish subsidiary BFF Polska S.A., in compliance with local regulations, specific "anti-corruption" guidelines have been adopted, with the identification of a specific single-person body responsible for them, represented by BFF Polska S.A.'s local Compliance and AML function.

The foreign branches apply their own Protocol approved by the Parent Company's Board of Directors, which also takes into account local regulations.

The Group's Code of Ethics is the document defining the set of ethical values embraced by the Group, respect for which makes it possible, among other things, to prevent the criminal offences enumerated in Legislative Decree No. 231/01.

Furthermore, the Parent Company and the subsidiaries have a whistleblowing process in place formalized in a dedicated procedure approved by the competent bodies.

The management policies adopted for each category of risk of the Banking Group, described in more detail in the relative sections, are set forth below.

## CREDIT RISK

The main activity of the Banking Group is factoring, which is governed, in Italy, by the Italian Civil Code (Book IV - Title I, Chapter V, Articles 1260-1267) and Law No. 52 of February 21, 1991 and subsequent amendments, and which consists of a plurality of financial services that can be structured in various ways, mainly through the sale of trade receivables.

Moreover, for the purpose of diversifying its business and its geographical presence, the Banking Group comprises the companies of BFF Polska Group, which mostly 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 aspects

The assessment of a transaction, for the different products offered by the Banking Group, is conducted through the analysis of a number of factors, ranging from the degree of risk fragmentation to the characteristics of the commercial relationship underlying the credit quality and the customer's 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 June 24, 2019, and by the "Credit Regulation" of subsidiaries. A further organizational measure tackling credit risk is provided by the internal regulation for monitoring credit quality, which describes the credit control process on the debtor and is an integral part of the aforementioned "Credit Regulation". Credit risk is therefore monitored at various levels within the framework of the multiple operating processes.

#### 2. Management, measurement and control systems

The management, measurement and control system relating to credit risk has been created to ensure control over the main types of risks belonging to the credit risk category.

For this purpose, it must be noted that the core business carried out by the Group consists, as mentioned above, in the purchase of receivables on a non-recourse<sup>1</sup> basis due from debtors belonging to public administration agencies.

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

- ▶ *Credit risk* in the strict sense: the risk of default of counterparties to which the Group is exposed, which is fairly limited considering the nature of the Group's counterparties, the majority of which are not subject to bankruptcy proceedings or other procedures that could undermine their substantial solvency;
- ▶ *Dilution risk*: the risk that the amounts owed by the assigned debtor are reduced due to allowances or offsets arising from returns and/or disputes concerning the quality of the product or service or any other issue;
- ▶ *Factorability risk*: the risk related to the nature and characteristics of the commercial relationship subject to factoring/sale, affecting the ability of the 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.

1 For the classification of factoring transactions as "non-recourse" and "recourse", irrespective of the contractual form, any transaction carried out with the full transfer to the Group of the risks and rewards connected with the assets subject to the transaction is considered "non-recourse", pursuant to IAS 39 and the new IFRS 9 ("derecognition"). On the other hand, transactions that do not result in the above-mentioned transfer of risks and rewards to the Group are considered "recourse".

In light of the risks detailed above, the Group has internal regulations that describe the phases that industry regulations identify as components of the credit process:

- ▶ Background check;
- ▶ Decision;
- ▶ Disbursement;
- ▶ Monitoring and review;
- ▶ Dispute.

Non-recourse factoring by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line application is carried out based on the provisions of the Credit Regulation, of the Credit Line and Audit Methodologies and Criteria, of the non-recourse customer background check procedure and of the entity and debtor background check procedure. Furthermore, following the first grant, both customers and debtors are monitored continuously in addition to being audited at least once a year to assess their credit rating.

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

In the "receivables management only" service, credit risk is considerably reduced because it is limited to the Group's exposure to the customer for payment of the agreed fees and commissions, that is, the reimbursement of legal fees incurred. 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 residual activity for BFF Banking Group.

Specifically with reference to the acquisition of BFF Polska S.A. in 2016, please note that this resulted in significant growth for the Group, making it possible to expand the Group's operations in Poland, Slovakia and the Czech Republic, while also diversifying the 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, Group credit risk management aims at building a robust and balanced financial asset portfolio to reduce to a minimum the risk of impaired exposures and at the same time generate the expected profit margin and 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 analysed within the framework of the risk of delay in repaying liabilities.

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending.

With regard to the assessment and measurement of credit risk from a regulatory point of view in terms of capital requirements to guarantee capital adequacy, the Group uses the "standardized" approach, 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, which highlight the classification of exposures into different classes ("portfolios") depending on the type of counterparty and the application of diversified weighted ratios to each portfolio, described in detail in Section 4 of this document.

BFF Banking Group constantly maintains, as a capital requirement for credit risk, an amount of Own funds equal to at least 8% of the risk weighted exposures (RWA - "Risk Weighted Assets").

In particular, BFF Banking Group applies the following primary weighting factors for the calculation of RWAs:

- ▶ 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish public sector entities and other local authorities as provided for by EBA lists "*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*" and "*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*";
- ▶ 3.73% for the prefunded contribution to the Cassa Compensazione e Garanzia guarantee fund (qualified counterparty) for repurchase transactions;
- ▶ 20% for (i) exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, (ii) exposures to public sector entities of countries with Credit Quality Step 1, (iii) exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- ▶ 50% for exposures to the public administration agencies of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector;
- ▶ 100% for (i) exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece); and (ii) exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- ▶ 50% or 100% for receivables due from supervised intermediaries, according to the credit quality step of the country in which they have their offices;
- ▶ 75% for loans to retail and SME counterparties;
- ▶ 100% for loans to private debtors (i.e., businesses);
- ▶ 100% for tangible assets, equity investments and other assets;
- ▶ 150% for non-performing exposures, if the specific value adjustments are less than 20% of the non-collateralized portion, before any adjustments;
- ▶ 100% for non-performing exposures, if the specific value adjustments are 20% or more than the non-collateralized portion, before any adjustments;
- ▶ 250% to deferred tax assets not deducted from own funds.

Banca Farmafactoring has adopted *Dominion Bond Rating Service (DBRS) as its reference ECAI*. The unsolicited rating attributed to the Republic of Italy by DBRS on July 13, 2018 was "BBB high". Exposures to Italian public sector entities, including receivables due from the National Healthcare Service and Local Healthcare Entities, fall within the Credit Quality Step 3 with a weighting of 100%.

However, as at December 31, 2020, with a view to approximating the provisions on the new definition of default (i.e. Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013) in force since January 1, 2021, the Group, like other intermediaries, was required to adopt the invoice due date

(with an original expiry of less than three months) as starting date for counting the overdue amount for the non-recourse factoring product instead of the estimated internal collection date. This therefore means that a significant proportion of exposures to public sector bodies is weighted at 20% under Article 116, paragraph 3 of the CRR. The BFF Banking Group's exposures are represented primarily by exposures with counterparties belonging to the Public Administration or with healthcare companies of the countries in which the Group operates.

Based on the method described above, the capital requirement for credit risk at December 31, 2020 is €96.6 million for BFF 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.

Specifically:

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

Finally, in accordance with Bank of Italy Circular No. 139 of February 11, 1991, as subsequently amended, "*Risk centre. Instructions for credit intermediaries*", the Bank reports monthly to the Risk Centre, providing information on the dynamics of the debtor's financial debt over time and on the ratio granted/used (which expresses the company's financial commitment and the margins of indebtedness to the system). This compliance also allows the visibility of the financial position of the subjects reported by the Bank, in order to better monitor the performance of the receivable.

### 3. Credit quality assessment

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

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

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

Note that the IFRS 9 accounting principle entered 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 that is available without undue cost or effort and includes historical, current and forward-looking data. In this context, an approach based on the use of credit risk parameters (Probability of Default – PD, Loss Given Default – LGD, Exposure at Default – EAD) has been adopted, redefined based on a multi-period perspective.



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

As for Stage 1, expected 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 impairment”)

The impairment model is characterized by:

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

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modelling approach. Therefore, by analysing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Group's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous accounting standards are as follows:

- ▶ A forward-looking model, allowing the immediate recognition of all expected losses over the life of the receivable, thus replacing the “incurred loss” criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ▶ ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;
- ▶ Use of forward-looking information and macroeconomic factors to determine ECL;
- ▶ Introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

The ECL calculation model requires a quantitative assessment of future cash flows and assumes that they can be reliably estimated. This requires the identification of certain elements, namely:

- ▶ Probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;
- ▶ LGD model;
- ▶ A deterministic and stochastic EAD model allowing to define a multi-period distribution as well as a 12-month horizon.

The risk parameters that are modelled to comply with the rationale of considering the full expected life-time of the financial instrument are as follows:

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

Furthermore, in compliance with *IFRS 9*, the ECL calculation includes Point-in-Time (PIT) adjustments in the parameters and takes into consideration the integration of Forward-Looking Information (FLI).

### Receivables subject to specific adjustments ("specific impairments")

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

It should be noted that, with reference to past due 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 arising from impairment are then individually attributed to each single counterparty classified in such risk position.

BFF Banking Group's impaired receivables consist of NPLs, unlikely to pay and past due exposures, for a total of €124.6 million - net of individual impairment - and are broken down as follows:

- ▶ €66.8 million NPLs;
- ▶ €15.7 million unlikely to pay exposures;
- ▶ €42.1 million impaired past due 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 perform their functional oversight over the activities conducted in this area and check the accuracy of the conclusions.

## 4. Financial assets impaired

On July 24, 2014, the EBA published the “Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and nonperforming exposures” (EBA/ITS /2013/03/rev1 24/7/2014): this document introduces new definitions concerning non-performing exposures and forbearance measures.

These definitions were adopted with the 7th update of Bank of Italy Circular No. 272 of January 20, 2015, and call for the breakdown of impaired assets into:

- ▶ Non-performing loans
- ▶ Unlikely-to-pay positions
- ▶ Past-due impaired exposures

### 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, 2020, the total non-performing loans of BFF Banking Group net of specific impairment amounted to €66.8 million, of which €5.6 million purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €64.0 million, accounting for 96.0% of the total.

Gross non-performing loans amounted to €80.0 million, with impairment of €13.2 million.

Gross non-performing loans relating to BFF Polska Group amounted to €13.2 million, with impairment of €11.1 million, for a net value of €2.1 million. With respect to BFF Finance Iberia S.A., gross non-performing loans amount to €117 thousand, with impairment of €89.9 thousand, for a net value of €27 thousand.

### Unlikely-to-pay positions

Unlikely to pay exposures reflect the judgement made by the Group about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully meet (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 instalments). 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.

At December 31, 2020, gross exposures classified as unlikely to pay amounted to €18.7 million, of which €18.3 million attributable to BFF Polska Group, €301 to Banca Farmafactoring and €463 thousand to BFF Finance Iberia. The total net value is €15.7 million, referring primarily to BFF Polska Group.

### Past-due impaired exposures

These are exposures to governments and central banks, local and public entities, non-profit entities and companies that, at the reference date of December 31, 2020, were more than 90 days past due and classified as impaired on the basis of the provisions of Bank of Italy Circular No. 272 of January 20, 2015.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past-due impaired when the debtor has not made any payment on any debt positions owed to a Group company 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, 2020, gross past-due exposures amounted, for BFF Banking Group, to €42.2 million, with impairment of €0.1 million. Net past-due exposures therefore amounted to €42.1 million, of which 94.6% referring to public administration counterparties and public sector companies.

With reference to Banca Farmafactoring, these net exposures amount to €39.6 million. Of this amount, €30.2 million, equal to 99.6%, concerned Italian, Portuguese and Greek public administration counterparties (the majority local entities) and Italian public sector companies. In relation to BFF Polska Group, net past-due exposures amounted to €2.1 million. For BFF Finance Iberia, net past-due exposures amounted to €0.4 million, all concerning public administration counterparties.

## 5. Securitization transactions

This section provides both “qualitative” and “quantitative” information on securitization transactions and asset disposals carried out by the Bank and by BFF Banking Group.

### Information on the transaction with the vehicle BFF SPV S.r.l.

#### *Strategies, processes and objectives*

The private placement of a securitization transaction was carried out in July 2017 and renewed in December 2018 for €150 million - the maximum amount of the flexible senior note - with the aim of diversifying funding activities.

#### *Transaction details*

The receivables, due from Local Healthcare Entities and Hospitals, are sold without recourse to a special purpose vehicle pursuant to Law 130/99, BFF SPV, which finances the purchase of the receivables by issuing securities up to a total of €150 million.

The securitization structure provides for a revolving period during which sales of 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 and originally valid through January 15, 2019, was renewed in December 2018: as a result, the revolving phase outstanding at December 31, 2018 is to end on February 17, 2020. On February 6, 2020, the revolving phase was once again renewed and therefore it is to end on February 15, 2021.

It should be noted that in January 2021 the activities necessary for the closure of the transaction were carried out. On February 15, 2021, the senior note was repaid and the program was unwound. The closure activities and the striking off from the register of companies of the vehicle are expected to be completed by the end of the first half of 2021.

## COUNTERPARTY RISK

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.

For the BFF Banking Group, the risk is marginal and generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized approach.

## MARKET RISK

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

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

## INTEREST RATE RISK

For assessing 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 Circular No. 285/2013 (Part I, Title III, Chapter I) and the recent guidelines of the European Banking Authority (EBA)<sup>2</sup>. 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 RISK

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in currency exchange rates, considering positions in foreign currency as well as those with indexation clauses linked to the exchange rate trends of a given currency.

The Group's asset portfolio at December 31, 2020 is denominated as follows:

- ▶ Euro;
- ▶ Polish zloty;
- ▶ Czech koruna;
- ▶ Croatian kuna.

The Group thus manages and monitors the risk of fluctuations in exchange rates. The Group has a specific internal regulation for the management of exchange risk referring to exposures arising from the management of assets, funding transactions, the purchase or sale of financial instruments in foreign currency, and any other type of transaction in a currency other than the reference currency. Specifically, the Group operates under a natural hedging approach and has entered into hedging instruments to hedge exchange rate risk where the natural hedging strategy cannot be pursued and/or is not effective.

With regard to the acquisition of BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty was hedged by loan agreements secured with the UniCredit Group and the Intesa Sanpaolo Group, so that the asset and liability positions offset each other and, consequently, there is an open position in currency within the limits set by the Risk Appetite Framework approved by the Bank's BoD.

The currency effect recognized in the income statement arising from the revaluation of zloty loans 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 BFF Polska Group's equity.

No hedging transactions using derivative instruments were recognized at December 31, 2020.

<sup>2</sup> 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 activities".

## LIQUIDITY RISK

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

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

- ▶ Separation of processes for the management of liquidity and processes for the control of liquidity risk;
- ▶ Development of processes to manage and control liquidity risk, consistent with the hierarchical structure and through a process for the delegation of powers;
- ▶ Sharing of decisions and clear responsibilities among management, control and operational bodies;
- ▶ Making liquidity risk management and monitoring processes consistent with prudential supervisory requirements.

Liquidity risk stress tests were performed for assessing the potential impact of stress scenarios on the Group's solvency conditions.

BFF Banking Group's LCR and NSFR at the reporting date were equal to 635.4% and 113.5%, respectively.

## ENCUMBERED ASSET MANAGEMENT PROCESS

As the Parent Company, BFF has adopted a specific policy for the management of the BFF Banking Group's encumbered assets, for the measurement and relative controls to be performed on them, which governs activities intended to:

- ▶ Outline the liquidity risk governance policies deriving from a deterioration in the credit quality of encumbered assets;
- ▶ Include in its emergency plans (Contingency Funding and Recovery Plan) strategies geared towards managing any potential increase in the share of encumbered assets deriving from situations of significant tension, or plausible, albeit unlikely, shocks, with regard, inter alia, to a rating downgrade for the Bank, the impairment of pledged assets and an increase in margin requirements;
- ▶ Ensure that the corporate bodies receive prompt information, at least with regard to:
  - (i) The level, evolution and nature of the encumbered assets and sources constituting the encumbrance;
  - (ii) The amount, evolution and credit quality of unencumbered assets that may be encumbered, with an indication of the volume of assets that may potentially be encumbered;
  - (iii) The amount, evolution and nature of the encumbered assets resulting from the materialization of stress scenarios (potential share of encumbered assets).

BFF Banking Group monitors the “Asset encumbrance ratio” (hereinafter also the “AE ratio”), in order to observe the risk exposure trend linked to the share of encumbered assets, which derives from the unavailability of assets that may be readily liquidated through sale, sale with repurchase agreement, collateral assignment or securitization, resulting in:

- ▶ A reduction in the share of assets available to creditors and depositors not guaranteed;
- ▶ An increase in funding and liquidity risk, as the share of encumbered assets reduces the possibility of obtaining new secured funding.

The AE ratio is defined as the ratio between the Group’s encumbered loans and total loans.

Within the RAF document, a specific operating limit of 50% is established, defined as the maximum ratio between encumbered assets and total assets.

## OPERATIONAL RISK

Operational risk is the risk of incurring a loss due to inadequacy or failures of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

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

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

The operational risk assessment model adopted is of the “mixed” type, meaning a model based both on qualitative assessments - linked to process mapping, at-risk activities and the corresponding controls adopted - and on quantitative assessment.

Lastly, 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 Company Control Functions and the definition of specific policies and regulations on various subjects and topics.

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

## RISKS OF THE OTHER COMPANIES

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

The SPV, established for the securitization transactions structured by the Bank, was 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 of the management body, pursuant to Article 435(1)(e) and (f) of EU Regulation No. 575/2013

The Chief Executive Officer of Banca Farmafactoring S.p.A., Massimiliano Belingheri, based on the mandate of the Board of Directors, declares pursuant to Article 435(1)(e) and (f) of EU Regulation No. 575/2013 that:

- a) The risk management systems put into place in the Banca Farmafactoring Banking Group, and described in the document "Pillar III - Disclosure to the public - Year 2019" are aligned with the entity's profile and strategy;
- b) In particular, this section, "Risk management objectives and policies", of the above-mentioned document describes in brief the overall risk profile of the Banca Farmafactoring Banking Group.

## Information relating to governance arrangements (Art. 435(2) CRR)

### 1. BOARD OF DIRECTORS

#### A) Engagement policy for the selection of members of the Board of Directors and limit on assignments

The Bylaws<sup>3</sup> establish that the Bank is managed by a Board of Directors consisting of a number of members established by the Shareholders' Meeting on appointment which, in any event, may be no lower than 5 (five) and no higher than 13 (thirteen). The members of the Board of Directors have a term of office for a period not to exceed 3 (three) years, established on appointment, ending on the date of the Shareholders' Meeting convened

<sup>3</sup> The Bank's Bylaws are available on its *website* (the "**Website**") at the following address: <https://investor.bff.com/it/statuto> and address the composition of the Board of Directors in Articles 14 et seq.



to approve the financial statements for the final year of their term, and they may be re-elected.

The Board consists of Independent directors, Executive directors and Non-executive directors.

The appointment of Directors of BFF and members of the Board of Directors takes place, as set forth in Article 15 of the Bylaws, with the list voting mechanism, on the basis of lists submitted by the outgoing Board of Directors (the "BoD List")<sup>4</sup> and/or by the Shareholders.

Each list contains a number of candidates not exceeding the number of members to be elected, listed with a progressive number, and the composition of the Board of Directors ensures: (i) the fulfilment by all Directors of the requirements laid out by regulations in force<sup>5</sup>; (ii) the presence of Independent directors, at least in the minimum number established by regulations and legislation in force over time; (iii) the appointment of Directors belonging to the least represented gender, at least to the minimum extent set forth in Law No. 120/2011; (iv) the presence of one Director from the minority shareholders' list.

In the Bank's "*Board of Directors' Regulations*" (the "**BoD Regulations**")<sup>6</sup>, the Board of Directors established the requirements that BFF Directors must meet in addition to those laid out by regulations in force, and expressed its orientation regarding the maximum number of offices they may hold in other companies, in keeping with the provisions of Article 17 of the Fit & Proper Decree.

In compliance with regulatory and legislative provisions in force, the Board of Directors, with the support of the Appointments Committee and in coordination with the Chairman of the Board of Directors, for the purposes of the appointment and co-opting of its members, defines, taking into account the results of the annual self-assessment process (the "**Self-Assessment Process**", described below), its qualitative and quantitative composition considered optimal for the effective performance of the duties and responsibilities assigned to the management body by law, Supervisory Provisions and the bylaws, identifying and justifying the theoretical profile of the candidates (including the characteristics of professionalism and independence, if applicable) deemed appropriate for these purposes.

Specifically, on renewal of the entire management body, the Board of Directors, on the basis of the results of the Self-Assessment Process, makes its guidance available to the Shareholders on the optimal qualitative/quantitative composition (in terms, inter alia, of skills, experience, age, gender and international background), with regard to the characteristics and goals of the Bank.

The Board of Directors, appointed by the Shareholders' Meeting (the "**Shareholders' Meeting**") on April 5, 2018 on the basis of the Guidelines to Shareholders<sup>7</sup> prepared by the outgoing Board of Directors, remained in office for three years, until the Shareholders' Meeting convened to approve the financial statements for the year 2020. In quantitative terms, the Shareholders' Meeting adopted the guidance expressed in the Guidelines to Shareholders, inter alia, by reducing the number of Directors from ten to nine.

<sup>4</sup> This right was attributed to the Board of Directors by amending Article 15 of the Bylaws, approved by the Shareholders' Meeting on March 18, 2019. For more information, please refer to the minutes of that meeting and the Board of Directors' report illustrating the relative proposal to amend the Bylaws, available on the Website at the following address <https://investor.bff.com/it/assemblea-degli-azionisti-28-marzo-2019>

<sup>5</sup> Reference is made to Articles 147-ter(4) and 148 of Legislative Decree No. 58/1998 (as amended; the "**TUF**"), as well as the provisions laid out in Article 26 of Legislative Decree No. 385/1993 (as amended; the "**TUB**"), Decree No. 169/20 "*Regulation on the requirements and criteria of suitability for the performance of the role of corporate officers of banks, financial intermediaries, credit guarantee consortia, electronic money institutions, payment institutions and depositary guarantee systems*", which entered into force on December 30, 2020 (the "**Fit & Proper Decree**"), applicable at the first renewal of the bodies subsequent to its entry into force), Article 36 of Decree-Law No. 201/2011 ("**Salva Italia Decree**" which establishes an interlocking prohibition) and the Corporate Governance Code for listed companies approved by the Corporate Governance Committee established by the business associations (ABI, ANIA, Assonime, Confindustria), Borsa Italiana S.p.A. and the association of professional investors (Assogestioni) in January 2020 (the "**Corporate Governance Code**").

<sup>6</sup> The BoD Regulations are available on the Bank's website at the following address: <https://www.bffgroup.com/it/regolamento-consiglio-diamministrazione>.

<sup>7</sup> Available on the Website at the address <https://it.bff.com/assemblea-degli-azionisti-5-aprile-2018-new>

On April 2, 2020, the Shareholders' Meeting confirmed the appointment of Giorgia Rodigari, co-opted on December 11, 2019, following the departure from office of Luigi Sbrozzi.

The Board of Directors in office at December 31, 2020, consists of the Directors listed below.

<b>Mr Salvatore Messina</b>	<b>Chairman</b>
<b>Mr Federico Fornari Luswergh</b>	Deputy Chairman* - Independent Director
<b>Mr Massimiliano Belingheri</b>	Chief Executive Officer
<b>Ms Isabel Aguilera</b>	Independent Director
<b>Ms Gabriele Michaela Aumann</b>	Independent Director
<b>Mr Ben Carlton Langworthy</b>	Non-Executive Director
<b>Mr Carlo Paris**</b>	Independent Director
<b>Ms Barbara Poggiali</b>	Independent Director
<b>Ms Giorgia Rodigari</b>	Non-Executive Director

(\*) Appointed as Deputy Chairman of the Board of Directors on December 11, 2019 to replace the outgoing Luigi Sbrozzi (who left office on December 9, 2019).

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

(\*\*\*) Director co-opted on December 11, 2019 to replace the outgoing Director Luigi Sbrozzi (who left office on December 9, 2019), and whose appointment was confirmed by the Shareholders' Meeting on April 2, 2020.

For the sake of comprehensiveness, note that several of the above members of the Board of Directors already held the role of Director of the Issuer prior to the above-mentioned appointment. Specifically: (i) Mr Salvatore Messina was appointed as Director and Chairman of the Board of Directors of the Issuer for the first time on January 14, 2013; (ii) Mr Massimiliano Belingheri was appointed as Non-Executive Director of the Issuer for the first time on December 19, 2006 and on December 24, 2013 he became Chief Executive Officer; (iii) Mr Federico Fornari Luswergh was appointed as Director of the Issuer for the first time on April 29, 2010; (iv) Ms Gabriele Michaela Aumann was appointed as Director of the Issuer for the first time on December 21, 2015; (v) Mr Ben Carlton Langworthy was appointed as Director of the Issuer for the first time on November 4, 2015.

As concerns the qualitative aspect, at the time of appointment, the candidates for member of the Board of Directors, taking into account the indications set forth in the Guidelines to Shareholders, inter alia:

- (i) Declared the non-existence of reasons for ineligibility and incompatibility, as well as the fulfilment of the requirements laid out by regulations and legislation in force;
- (ii) Provided an exhaustive disclosure on their personal and professional characteristics, as well as on the skills gained in the banking, financial and/or other relevant fields as specified in more detail in the Guidelines to Shareholders and/or the BoD Regulations;
- (iii) Indicated the management and control offices held in other companies;
- (iv) Declared that they could dedicate adequate time to the office in light of its complexity.

On April 24, 2018 and, with regard to Ms Rodigari, on December 11, 2019 and April 24, 2020, the Board of Directors verified compliance with the qualitative/quantitative composition deemed optimal and that actually resulting from the appointment process. At that time, the Board of Directors also verified, for each of its members, compliance with the limit on the number of assignments, as well as the fulfilment of the requirements of professionalism and integrity, the absence of offices in competing companies or groups of companies (also for the purposes of the interlocking directorship prohibition pursuant to Article 36 of Decree-Law No. 201/2011) and the fulfilment of the independence requirements pursuant to Articles 148 and 147-ter of the TUF and/or Article 3 of the Corporate Governance Code for five Directors.

It should be noted that Mr Salvatore Messina was qualified as independent pursuant to Articles 147-ter and 148(3) of the TUF. Ms Gabriele Michaela Aumann, Ms Barbara Poggiali, Ms Isabel Aguilera,

Mr Federico Fornari Luswergh<sup>8</sup> and Mr Carlo Paris declared that they meet the independence requirements pursuant to Articles 147-ter and 148(3) of the TUF and Article 3 of the Corporate Governance Code.

The composition of the Board of Directors appointed on April 5, 2018, as supplemented on December 11, 2019 and confirmed on April 2, 2020 - also with regard to the statements provided during the candidacy phase - is therefore compliant with applicable legislative and regulatory provisions regarding gender balance and the independence requirement. Subsequent to appointment, the continuing fulfilment of the above-mentioned requirements is confirmed on an annual basis by the Board of Directors, also as part of the Self-Assessment Process performed in keeping with the Supervisory Provisions and the Corporate Governance Code, as incorporated within the *"Board of Directors self-assessment process regulation"* adopted by the Bank.

In more detail, the Self-Assessment Process concerns aspects related to the qualitative/quantitative composition and functioning of the Board of Directors and its internal Committees, taking into account, amongst other items, the size, degree of diversity in terms of age, gender, experience and professional expertise, etc., of its members, the presence of non-executive and independent members and the adequacy of the appointment process and selection criteria in order to identify any points of weakness and guarantee the most correct functioning over time and the consequent effectiveness of the body with strategic supervision function and the board committees, as well as to guarantee the effectiveness of governance that is duly based on the principles of sound and prudent management.

The Self-Assessment Process for the year 2020 (the **"2020 Self-Assessment"**) brought to light an overall positive judgement and a positive evolution with respect to 2019, with several points for improvement, specified in more detail in the *"Report on Corporate Governance and Ownership Structure"* for the year 2020<sup>9</sup>, presented to the Shareholders' Meeting convened to approve the financial statements for the year 2020.

The summary statement of the number of offices held in other companies by members of the Board of Directors in office at December 31, 2020 is provided below:

Director	Total number of offices held in other companies
Salvatore Messina	1 non-executive
Federico Fornari Luswergh	1 executive
Massimiliano Belingheri	0
Isabel Aguilera	5 non-executive <sup>10</sup>
Gabriele Michaela Aumann	0
Ben Carlton Langworthy	3 non-executive
Carlo Paris	2 non-executive
Barbara Poggiali	3 non-executive
Giorgia Rodigari	2 non-executive

<sup>8</sup> The Board deemed that the fact that Mr Fornari has held his role for more than nine years does not jeopardize his independence, as he has not engaged with the Company or its related parties in relations such so as to impact his independent judgement and, in any event, all other criteria set forth in the Corporate Governance Code are met.

<sup>9</sup> The *"Report on Corporate Governance and Ownership Structure"* for the year 2020 is available on the Website at the following address: [https://it.bffgroup.com/it/https://investor.bff.com/documents/20152/1041335/BFF\\_Relazione+sul+governo+societario+e+gli+assetti+proprietary+2020+%28Assemblea+2021%29+DEF.pdf/707d6ef1-928b-4f89-76ba-33697ed55809](https://it.bffgroup.com/it/https://investor.bff.com/documents/20152/1041335/BFF_Relazione+sul+governo+societario+e+gli+assetti+proprietary+2020+%28Assemblea+2021%29+DEF.pdf/707d6ef1-928b-4f89-76ba-33697ed55809) (the **"CG Report"**).

<sup>10</sup> Please note that Ms Aguilera expressed her willingness to resign from any offices exceeding the limits on assignments. However, the Board of Directors deemed the number of offices held by Ms Aguilera to be appropriate as (i) the companies in which she acts as non-executive director operate in sectors pertinent to her professional background and, therefore, they do not require her to spend much energy to understand their business; (ii) Making Science S.A. and HighTech Payment Systems S.A. - Morocco have a limited number of board meetings scheduled per year (4 and 2, respectively); (iii) Oryzon Genomics S.A. can be qualified as an "SME" in accordance with EU Recommendation No. 2003/361; (iv) participation in the board meetings of the companies in which she is a director other than the Bank does not require onerous travel in terms of time.

On March 25, 2021, following the approval of the financial statements for the year 2020, the Shareholders' Meeting appointed the new Board of Directors<sup>11</sup>.

## B) Succession plan of the Chief Executive Officer

On December 20, 2017, the Board of Directors approved the "*Succession plan of the Chief Executive Officer*" (the "**Succession Plan**"), consisting of: (i) the "Contingency Plan" identifying (a) the steps to be taken immediately following the occurrence of a definitive or temporary impediment, and (b) the party responsible for taking over the role of Chief Executive Officer on a temporary basis, for the period of time required to appoint a new Chief Executive Officer in cases of definitive impediment, or until the state of impediment is over, in cases of temporary impediment; (ii) the "Succession Planning" which establishes the actions to be taken to identify and appoint a new Chief Executive Officer if a definitive impediment is confirmed.

The Appointments Committee annually checks the need and/or opportunity to update the Succession Plan, providing pertinent information to the Board of Directors so it may pass the relative resolutions.

On December 22, 2020, the Succession Plan was revised by the Board of Directors - after being reviewed by the Appointments Committee - and it was updated insofar as the profile of the ideal candidate for the role of Chief Executive Officer, in light of the results of the 2020 Self-Assessment.

For more information, refer to the CG Report.

## C) Policy on diversity adopted with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which these objectives and targets have been achieved

On September 28, 2018, Board of Directors approved, at the proposal of the Appointments Committee, the "*Board of Directors diversity policy*", most recently updated on December 22, 2020 (the "**BoD Diversity Policy**").

Such Policy is subject to review and, if necessary, updated at least on an annual basis, including with the help of external professionals, based on the proposal of the Appointments Committee. Revisions comply with the outcome of the Self-Assessment Process and are designed to reflect and anticipate changes in the Company, so that the identification of the requirements for Board composition is consistent with the abovementioned outcome.

The BoD Diversity Policy describes the optimal characteristics of the composition of the management body, so that it may exercise its duties in the most effective way, making decisions on the basis of a plurality of qualified and diverse points of view.

In particular, it is deemed that the optimal composition of the Board of Directors should be geared towards meeting at least the following criteria:

- (i) The presence of a consistent number of Non-executive and/or independent directors. In any event, there must be at least two Independent directors, other than the Chairman of the Board of Directors, if the Board has seven members, at least three if it has up to twelve members, and at least four if it has more, and if the Bank decides to submit the BoD List, at least half of the candidates on it must meet the independence requirements set forth by law, the Bylaws and Board of Directors Regulations. The number of Non-executive and/or independent directors must also guarantee a diverse composition of the Internal committees;

---

<sup>11</sup> For more information on the new composition of the Board of Directors, please refer to the Website at the following address <https://it.bff.com/consiglio-di-amministrazione>

- (ii) The maintenance of at least a share of two-fifths, rounded up, of the members of the Board of Directors, at the time of appointment and during the term of office, belonging to the least represented gender;
- (iii) Diversity in terms of age, so as to allow for a plurality of perspectives and management and professional experiences;
- (iv) The balancing of different periods of seniority in office, in an attempt to strike a balance between continuity requirements and management renewal;
- (v) Considering the Group's international scope, the presence of one-third of directors who have gained adequate experience in international contexts (preferably in the Group's markets and particularly in Eastern Europe, i.e. Poland, Czech Republic, Slovakia and Croatia) in order, inter alia, to prevent the endorsement of opinions and the phenomenon of "group thinking", and in the specific business of depositary bank, payment and accessory services.

In general, the Directors should have a management and/or professional and/or academic and/or institutional profile such so as to achieve a diverse and complementary mix of skills and experience, gained for at least three years.

Specifically with regard to the Chairman of the Board of Directors and the Chief Executive Officer, the BoD Diversity Policy lays out the requirements of professionalism that they must have respectively gained for at least five years.

As noted previously, aside from the requirements of professionalism set forth by regulations, the Directors must meet the further requirements set forth in the BoD Regulations.

The BoD Diversity Policy is primarily implemented - in compliance with provisions of law and the bylaws on the appointment of the Board of Directors and its Chairman with the list voting mechanism, as well as the Succession Plan - during (i) the appointment of Board of Directors, through the formulation by the outgoing Board of Directors, with the contribution of the Appointments Committee and the Chairman, of the Guidelines for Shareholders, as well as any formation and presentation to the Shareholders of the BoD List; (ii) co-opting; (iii) early departure from office of the Chief Executive Officer, and (iv) the appointment of the Chairman of the Board of Directors. For the appointment of the Board of Directors and for the co-opting pursuant, respectively, to points (i) and (ii), the Self-assessment process is fundamental.

Considering the approval of the BoD Diversity Policy in the third quarter of 2018, subsequent to the appointment of Board of Directors by the Shareholders' Meeting on April 5, 2018, monitoring of the results of its implementation has to date been carried out only in relation to the appointment of the co-opted Director Ms Giorgia Rodigari, who meets all diversity criteria and objectives set forth in the BoD Diversity Policy. In this regard, it was found that in relation to the composition of the Board of Directors: (i) the number of Non-executive and/or independent directors has remained unchanged; (ii) the number of Directors belonging to the least represented gender has increased by one; (iii) the diversification of age brackets within the Board of Directors has basically remained the same and the plurality of management and professional experience has been maintained, with the profile of Ms Rodigari in many respects similar to that of the departing Director, including in terms of adequate international experience.

The results of the monitoring of the BoD Diversity Policy, in its most recent version, will be disclosed in the Corporate Governance Report relating to the year 2021.

The Board of Directors in office at December 31, 2020, consisted of:

- (i) 5 (five) Independent Directors, constituting the majority of the Board of Directors;
- (ii) 4 (four) female Directors and 5 (five) male Directors;

(iii) 5 (five) Directors resident abroad, of whom 3 (three) non-Italian Directors, representing one-third of the members of the Board of Directors.

On April 24, 2018, on May 10, 2019 and, with regard to the co-opted Director, Ms Giorgia Rodigari, on December 11, 2019, the Board of Directors confirmed that the Directors have at least one of the following skills:

- a) Adequate knowledge of the banking industry, trends and the economic and financial system, banking and financial regulation and, especially, risk management and control methodologies, acquired through long-term experience in administration, management and control roles in the financial sector;
- b) Experience gained in the management of operations for the disposal, management and collection of receivables, particularly with respect to entities providing healthcare services as well as the public administration;
- c) Experience in business management and company organization acquired through long-term activity in administration, management or control roles in companies, or groups of significant economic size or in the public administration;
- d) Capacity to read and interpret economic and financial data, acquired through long-term experience in administration and control roles in companies or the exercise of professional activity or university instruction;
- e) International experience and knowledge of foreign markets acquired by performing long-term business or professional activities at foreign institutions or internationally focused entities, businesses or groups.

The profiles of these candidates are reasonably complementary in terms of professional background and expertise, so as to guarantee the development of internal dialogue, efficient functioning and the overall suitability of the Board and the Board Committees to fulfil their obligations.

## 2. CONTROL AND RISKS COMMITTEE

### A) Establishment of a separate risk committee and the number of times it has met

In compliance with the Supervisory Provisions, and in line with the provisions of the Corporate Governance Code, the Board of Directors has established a Control and Risks Committee (the “**CR Committee**”).

Pursuant to the “*Control and Risks Committee Regulation*”, the CR Committee consists of 3 (three) Board members, all non-executive and the majority independent pursuant to the Bylaws and the BoD Regulations (*i.e.* TUF and Corporate Governance Code). An Independent director chairs the CR Committee.

The CR Committee in office at December 31, 2020 consists of the Independent Directors Ms Gabriele Michaela Aumann (Chairman), Mr Federico Fornari Luswergh and Non-Executive Director Ms Giorgia Rodigari. Ms Aumann (Chairman) has adequate accounting, financial and risk management expertise, as confirmed when she was appointed by the Board of Directors.

The CR Committee performs recommendation and advisory functions for the Board of Directors, in order to support, with adequate investigation activity, the assessments and decisions of the Board of Directors with respect to the Internal control and risk management system (relating to all activities supporting the proper and effective determination and application of the Risk Appetite Framework and the risk governance policies) and periodic financial reporting.

The following also have a standing invitation to CR Committee meetings:

- ▶ the Chairman of the Board of Directors and
- ▶ the Chairman of the Board of Statutory Auditors, to guarantee the presence of at least one member of the control body.

The Chairman of the CR Committee reports on each of its meetings at the next meeting of the Board of Directors.

In 2020, the CR Committee met 14 times; the average duration of these meetings was roughly 1 hour and 43 minutes.

In the course of 2021, 16 meetings are indicatively planned, of which 7 were held on January 28, February 9, 15 and 16, March 2 and 29 and April 22, 2021. The information flow on risks sent to the CR Committee is identified by a specific internal regulation and consists primarily of the documents prepared by the Company Control Functions (*i.e.* by the Internal Audit Function, the Risk Management Function and the Compliance and AML Function) concerning the planning of activities and the related reporting (annual reports and quarterly *Tableau de Bord*, also submitted subsequently to the Board and transmitted to the Bank of Italy), as well as other verifications required by regulations in force (reporting on material risks assumed by the Bank and other Group companies, disclosure on controls concerning risk governance and management, report on outsourced important operating functions, report on the Internal Capital Adequacy Assessment Process, etc.).

## B) Description of the information flow on risk to the Board of Directors

The information flow on risk addressed to the Board of Directors after assessment by the CR Committee is set forth below:

### INFORMATION FLOWS

Owner	Information flows generated	Frequency
Risk Management Function	Activity Plan	annual
	Report on activities performed	annual
	ICAAP/ILAAP	annual
	Risk Report Management	monthly
	<i>Contingency Funding Plan</i>	annual
	<i>Recovery Plan</i>	bi-annual
	Tableau de bord of the Risk Management Function (Risk Report)	quarterly
Compliance Function	Activity Plan	annual
	Compliance Report	monthly
	Tableau de bord of the Compliance Function	quarterly
	Disclosure relating to the implementation of framework resolutions	quarterly
	Complaints Report	annual
	Annual Report on Compliance activity	annual
AML Function	Audit Report*	half-yearly
	Report on activities performed	annual
Internal Audit Function	Activity Plan	annual/multi-year
	Audit Plan	by event
	Tableau de bord of the Internal Audit Function	quarterly
	ICAAP/ILAAP Audit Report	annual
	Audit Report on outsourced important functions/activities	annual
	Audit Report on the Incentive and remuneration system**	annual
	Annual Report of Internal Audit activities	annual
	Annual Whistleblowing Report	annual
Supervisory Body	Report on activities performed	half-yearly
Board of Statutory Auditors	Opinions of the Board of Statutory Auditors	by event
	Reporting on gaps identified	by event

\* This report is also sent to the Chairman of the Board of Directors in his capacity as party responsible for suspicious transactions.

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



## Section 2

### Scope of application (Art. 436 CRR)

#### Qualitative disclosure

The disclosure requirements pursuant to this document, as set forth pursuant to Article 436 of the CRR, refer to the Banca Farmafactoring Banking Group, enrolled in the Register of Banking Groups, of which Banca Farmafactoring is Parent Company.

In accordance with the provisions of the CRR, the scope of consolidation, used solely for prudential supervision purposes, envisages that BFF Luxembourg S.à r.l. is the parent. Therefore, the relative tables will include the information referring to the Banking Group in accordance with the T.U.B. as well as that of the CRR Group reported to the Bank of Italy.

In order to prepare the financial statements and the Pillar III report, for tables that do not refer to prudential supervision, the reference continues to be the Banking Group pursuant to the T.U.B. which, therefore, does not include BFF Luxembourg S.à r.l.

Please note that, following the elimination of BFF Luxembourg Sarl's shareholding in the Bank in February 2021, the Bank of Italy, via a notice dated February 23, 2021 removed the CRR Group mentioned above from the register of banking groups.

Subsidiaries are companies over which the Group exercises control. The Group controls a company when it is exposed to the variable returns generated by it and has the ability to affect such returns through its power over the company. Generally, control is deemed to exist when more than half of the voting rights are directly or indirectly held, taking also into account potentially exercisable or convertible voting rights.

The Group's subsidiaries also include special purpose companies or entities for which the company is exposed to substantially all the risks and rewards deriving from their activities or 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 notes of the companies that are consolidated on a line-by-line basis are prepared in accordance with the IASs/IFRSs used for the consolidated financial statements.

The scope of consolidation relevant for the purposes of the financial statements reflects the aggregation of balance sheet and income statement items of Banca Farmafactoring S.p.A. (BFF), BFF Finance Iberia S.A. (wholly owned subsidiary of Banca Farmafactoring S.p.A.), the special purpose vehicle BFF SPV S.r.l. and the companies of the BFF Polska Group, acquired on May 31, 2016.

The Banca Farmafactoring Banking Group operates primarily in the management and financing of receivables of suppliers of the Public Administration and, in particular, public healthcare systems. The Group is active in Italy, Portugal, Greece, Croatia and France through Banca Farmafactoring, in Spain through BFF Finance Iberia and in Poland, the Czech Republic and Slovakia through BFF Polska and its associates.

Banca Farmafactoring also offers deposit products to retail and corporate customers in Italy, Spain and Germany. BFF Polska S.A. 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 of current and future receivables;
- ▶ Financing investments in the public and healthcare sector.

Through BFF Polska, the Banking Group operates in a leadership position in the Polish alternative financing market (AFM) for hospitals, in which intermediaries offer forms of financing competing with traditional banking services to healthcare facilities. Other specialized operators and, to a much less significant extent, some traditional banks, are also active in this segment.

The acquisition of BFF Polska made it possible to increase the size of the Group thanks to its exposure to growing markets and the creation of a platform that can be used for progressive expansion in Eastern Europe and the acquisition of specific know-how for a potential evolution of the product portfolio and the range of services the Group offers in the markets in which it carries on business.

With regard to Legislative Decree No. 58/1998 (Consolidated Law on Finance) on provisions enabling the definition of “SME” issuers of listed shares and regulations applicable to issuers of financial instruments having wide public circulation, the Bank qualifies as “SME - Small Medium Enterprise” based on the size parameters (and the relevant thresholds) set by lawmakers.

Specifically, BFF Banking Group exceeds the “medium capitalization” threshold, set at €500 million, but remains below the €300 million threshold of the “turnover” parameter (i.e., the sum of (1) interest and similar income, (2) gains on securities, (3) commission income, (4) gains on financial transactions, and (5) other operating income).

On September 30, 2019, BFF Banking Group finalized the acquisition of 100% of the Spanish company IOS Finance S.A.U. (“IOS Finance”).

At the same date, the application for withdrawing the EFC (Establecimiento financiero de crédito) licence held by IOS Finance was filed with the Bank of Spain. Following the revocation, approved by the Bank of Spain on November 18, 2019, of IOS Finance’s status as an EFC, on December 31, 2019 the deed of merger of IOS Finance S.A. into BFF Finance Iberia S.A.U. was filed and registered at the Madrid Registro Mercantil and became effective (“BFF Iberia”, wholly controlled by the parent company Banca Farmafactoring S.p.A.).

Therefore, starting from January 1, 2020, BFF Iberia has taken over all the assets and liabilities belonging to IOS Finance. The merger became effective for accounting and tax purposes on September 30, 2019, i.e. the closing date.

On May 13, 2020 BFF signed a binding agreement governing the acquisition from Equinova UK Holdco Limited<sup>12</sup> (“Equinova”) of control of DEPObank and the subsequent merger by incorporation of the latter into BFF (the “Operation”).

---

12 A holding company whose shareholders are funds managed by Advent International Corporation, Bain Private Equity Europe LLP and Clessidra SGR S.p.A. and which holds an approximately 91% equity interest in DEPObank. The remaining 9% is held by various Italian banks: Banco BPM (2.5%), Credito Valtellinese (2.0%), Banca Popolare di Sondrio (2.0%), UBI Banca (1.0%) and other Italian banks (the “Minority Shareholders”).

The Operation made it possible to create the number-one Italian player in specialty finance, will further develop DEPObank's business and will improve access to funding and capital to serve BFF's traditional clients.

The operation was completed by the first quarter of 2021, following the approval of the merger by BFF's Extraordinary Shareholders' Meeting<sup>13</sup> held on January 28, 2021 and the subsequent merger of DEPObank into BFF on March 5, 2021.

Furthermore, antitrust authorization was obtained on June 30, 2020 and, following the decree of the President of the Council of Ministers of July 7, 2020 regarding the exercise of special powers (so-called "golden powers") containing prescriptions not impeding the completion of the Operation, BFF and DEPObank announced that the condition precedent relating to the so-called "golden power" must be understood to have been fulfilled. Furthermore, on December 9, 2020 authorizations were received from the Bank of Italy ("BoI") and the European Central Bank ("ECB") relating among other things to the acquisition of DEPObank and the merger by incorporation of DEPObank into BFF.

As part of the transaction Banca Farni will change its name to BFF Bank S.p.A.

For more information refer to the "Report on Operations" to the 2020 Consolidated Financial Statements.

---

<sup>13</sup> The merger will not give rise to rights of withdrawal for shareholders of BFF who do not vote in favour of the relevant resolution.

The following statement provides the main information relating to the Group companies.

Company name	Registered and operating office	Type of relationship (1)	Ownership relationship		Voting rights % (2)
			Held by	Holding %	
COMPANIES CONSOLIDATED LINE-BY-LINE					
1. BFF Finance Iberia, S.A.	Madrid - Paseo de la Castellana 81	1	Banca Farmafactoring	100%	100%
2. BFF SPV S.r.l.	Milan - Via V. Betteloni, 2	4	Banca Farmafactoring	0%	0%
3. BFF Polska S.A.	Łódź - Jana Kilińskiego, 66	1	Banca Farmafactoring	100%	100%
4. BFF Medfinance S.A.	Łódź - Jana Kilińskiego, 66	1	BFF Polska S.A.	100%	100%
5. BFF Česká republika s.r.o.	Prague - Roztylská 1860/1	1	BFF Polska S.A.	100%	100%
6. BFF Central Europe s.r.o.	Bratislava - Mostova 2	1	BFF Polska S.A.	100%	100%
7. Debt-Rnt sp. Z O.O.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	1	BFF Polska S.A.	100%	100%
8. Komunalny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
9. MEDICO Niestandaryzowany Sekurytyzacyjny Fundusz Inwestycyjny Zamknięty	Warsaw - Plac Dąbrowskiego 1	4	BFF Polska S.A.	100%	100%
10. Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Jana Kilińskiego, 66	4	BFF Polska S.A.	99%	99%
11. Restrukturyzacyjna Kancelaria Prawnicza Karnowski i Wspólnik sp.k.	Łódź - Al. Marszałka Jozefa Piłsudskiego 76	4	Debt-Rnt sp. Z O.O	99%	99%

As far as points 8 and 9 are concerned, voting rights refer to the investors' right to vote at the Meeting.

Companies in points 10 and 11 above are limited partnerships and are not consolidated since their total asset figures are not significant.

**Key:**

(1) Type of relationship:

1 = having the majority of voting rights at ordinary shareholders' meetings

2 = dominant influence at the ordinary shareholders' meeting

3 = arrangements with other shareholders

4 = other forms of control

5 = centralized management as per Article 26, paragraph 1 of Legislative Decree 87/92

6 = centralized management as per Article 26, paragraph 2 of Legislative Decree 87/92

(2) Voting rights at ordinary shareholders' meetings, distinguishing between actual and potential voting rights or percentage of shares

## Quantitative disclosure

Banca Farmafactoring holds no unconsolidated subsidiaries.

## Section 3

### Own funds (Art. 437 CRR)

#### Qualitative disclosure

Own funds represent the first line of defence against risks associated with the complexity of financial activities and constitute the main reference parameter for the assessment of the Group's capital adequacy.

The purpose of prudential supervision regulations is to ensure that all credit intermediaries have a minimum mandatory capitalization in relation to the risks assumed.

The Group constantly assesses its capital structure by developing and employing techniques for monitoring and managing regulated risks, also through a Control and 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, stock option reserve and financial instruments reserve);
- ▶ Any undistributed portion of profit for the period;
- ▶ Revaluation reserves (IASs/IFRS 9 transition reserve, reserve for actuarial gains/losses relating to defined benefit plans, and revaluation reserve for HTC&S securities);
- ▶ 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.

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 interest and Additional Tier 1 and Tier 2 instruments issued by subsidiaries".

The Own funds of BFF Banking Group pursuant to the TUB amount to €349.4 million, already net of the portion of profit for the year and the portion of profit for the 2019 financial year allocated to the 2019 Total Dividends, equal to €70.9 million.

The decrease in BFF Banking Group's own funds compared to December 31, 2019 was mainly influenced by the distributions of profits of the subsidiaries that were still recorded in the Group's reserves in the previous reporting.

## Quantitative disclosure

### Composition of Own funds

Own funds of the Banking Group pursuant to the T.U.B. are presented below.

ITEMS/VALUES	Total 12/31/2020	Total 12/31/2019
A. Common Equity Tier 1 (CET1) pre-application of prudential filters	287,817	336,910
of which CET1 instruments subject to transitional provisions		
B. Prudential CET1 filters (+/-)		
C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)	287,817	336,910
D. Elements to be deducted from CET1	(36,675)	(35,351)
E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions		
F. Total Common Equity Tier 1 (CET1) (C - D +/- E)	251,142	301,559
G. Additional Tier 1 (AT1) inclusive of elements to be deducted and effects of transitional rules		
of which AT1 instruments subject to transitional provisions		
H. Elements 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) (G - H +/- I)		
M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules	98,224	98,224
of which T2 instruments subject to transitional provisions		
N. Elements 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	98,224
Q. Total own funds (F + L + P)	349,366	399,783

Own funds of the Banking Group pursuant to the CRR are presented below.

ITEMS/VALUES	Total 12/31/2020	Total 12/31/2019
<b>A. Common Equity Tier 1 (CET1) pre-application of prudential filters</b>	558,847	415,759
of which CET1 instruments subject to transitional provisions		
<b>B. Prudential CET1 filters (+/-)</b>		
<b>C. CET1 gross of elements to be deducted and effects of transitional rules (A +/- B)</b>	558,847	415,759
<b>D. Elements to be deducted from CET1</b>	-54,901	-110,485
<b>E. Transitional period - Impact on CET1 (+/-), including minority interests subject to transitional provisions</b>	-	-
<b>F. Total Common Equity Tier 1 (CET1) (C - D +/- E)</b>	503,946	305,275
<b>G. Additional Tier 1 (AT1) inclusive of elements to be deducted and effects of transitional rules</b>	26,446	29,051
of which AT1 instruments subject to transitional provisions		
<b>H. Elements to be deducted from AT1</b>		
<b>I. Transitional period - Impact on AT1 (+/-), including instruments issued by subsidiaries and included in AT1 due to transitional provisions</b>		
<b>L. Total Additional Tier 1 (AT1) (G - H +/- I)</b>	26,446	29,051
<b>M. Tier 2 (T2) inclusive of elements to be deducted and effects of transitional rules</b>	48,427	71,187
of which T2 instruments subject to transitional provisions		
<b>N. Elements to be deducted from T2</b>		
<b>O. Transitional period - Impact on T2 (+/-), including instruments issued by subsidiaries and included in T2 due to transitional provisions</b>		
<b>P. Total Tier 2 (T2) capital (M - N +/- O)</b>	48,427	71,187
<b>Q. Total own funds (F + L + P)</b>	578,818	405,512

The change in the CRR Group's own funds at December 31, 2020 was affected by the various sales of BFF Luxembourg S.à r.l. (Centerbridge) in 2020, which brought the stake held by BFF Luxembourg S.à r.l. in the Group in BFF from 32.78% on December 31, 2019 to 7.95% at the end of 2020, and by the inclusion in Own funds of profits for 2019 and 2020 for €168.7 million.

The aforementioned own funds do not consider the accelerated bookbuilding carried out on February 11, 2021 and the exercise of the call option by the CEO. In its notice dated February 23, 2021, the Bank of Italy officialised the departure of BFF Luxembourg S.à r.l. from the prudential scope.

At CRR Group level, minority equity interests cannot be recognized in entirety under own funds, and should only be shown proportional to the risk borne.

## Own funds disclosure template

The table below provides information relating to the Own funds of the CRR Group, subject to reporting to the Bank of Italy.

Information on own funds	(A) Amount as of the reporting date	(B) Reference article of Regulation (EU) No. 575/2013	(C) Amounts subject to treatment pre-Regulation (EU) No. 575/2013
1 Capital instruments and the related share premium accounts	117,720	26(1) (27) (28) (29)	
2 Retained earnings	206,436	26(1)(c)	
3 Accumulated other comprehensive income and other reserves	0	26(1)(d)&(e)	
5 Minority interests (amount allowed in consolidated CET1)	150,674	84, 479, 480	
5a Independently reviewed interim profits net of any foreseeable charge or dividend	84,017	26(2)	
<b>6 Common Equity Tier 1 capital before regulatory adjustments</b>	<b>558,847</b>		
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>			
8 Intangible assets (net of related tax liability)	(54,901)	36(1)(b), 37, 472	
16 Direct or indirect holdings by an institution of own CET1 instruments	0	36(1)(f), 42	
<b>28 Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(54,901)</b>		
<b>29 Common Equity Tier 1 (CET1) capital</b>	<b>503,946</b>		
<b>Additional Tier 1 (AT1) capital: instruments</b>			
34 Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	26,446	85,86,480	
<b>44 Additional Tier 1 (AT1) capital</b>	<b>26,446</b>		
<b>45 Tier 1 capital (T1 = CET 1 + AT1)</b>	<b>530,392</b>		
<b>Tier 2 (T2) capital: instruments and provisions</b>			
46 Capital instruments and the related share premium accounts	7,807	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 and held by third parties	40,620	87, 88, 480	
<b>58 Tier 2 (T2) capital</b>	<b>48,427</b>		
<b>59 Total capital (TC = T1 + T2)</b>	<b>578,818</b>		
<b>60 Total risk weighted assets</b>	<b>1,807,955</b>		
61 Common Equity Tier 1	27.9%	92(2)(a), 465	
62 Tier 1	29.3%	92(2)(b), 465	
63 Total capital	32.0%	92(2)(c)	
Institution specific buffer requirement (CET1 requirement in accordance with Article 92(1)(a) plus capital conservation and countercyclical capital buffer requirements, plus systemic risk capital buffer, plus systemically important institution buffer	2.51%	CRD Article 128, 129, 130, 131, 133	
65 of which: capital conservation buffer requirement	2.50%		
66 of which: countercyclical buffer requirement	0.01%		
68 Common Equity Tier 1 capital available to meet buffers	22.19%		



The table below provides a reconciliation between the Shareholders' equity of the Banking Group pursuant to the T.U.B. and Own funds relating to the same Banking Group reported in Part F of the consolidated financial statements.

Items in shareholders' equity	Total
Share capital	131,401
Share premium reserve	693
Reserves	241,473
Equity instruments	
(Treasury shares)	(3,517)
Valuation reserves:	
- Equity instruments measured at fair value through other comprehensive income	
- Hedging of equity instruments measured at fair value through other comprehensive income	
- Financial assets (other than equity instruments) at fair value through other comprehensive income	0
- Property, plant and equipment	
- Intangible assets	
- Hedging of foreign investments	
- Cash flow hedges	
- Foreign exchange differences	(2,523)
- Non-current assets held for sale and disposal groups	
- Actuarial gains (losses) relating to defined benefit plans	(156)
- Share of valuation reserves for equity investments measured at equity	
- Special revaluation laws	4,135
Profit (loss) (+/-) for the fiscal year	91,073
<b>Shareholders' equity</b>	<b>462,579</b>
Dividends	(3,231)
2020 Profit not yet distributed and to be distributed when the recommendation is removed	(87,841)
2019 Profit not yet distributed and to be distributed when the recommendation is removed	(70,875)
Reserves to be distributed when the recommendation is removed	(12,814)
Ineligible minority interests	
CET1 pre-application of prudential filters, transitional adjustments and deductions	287,817
Prudential filters	
Commitment to repurchase CET1 instruments	0
Deductions	(36,675)
<b>CET1</b>	<b>251,142</b>
Tier 2 subordinated loans	98,224
<b>Banking Group Own funds</b>	<b>349,366</b>

## Capital instruments' main features template

### Tier 1 capital

Values in euro units

	Value date	Original amount	Contribution to Own funds (*)
Paid-in share capital	EUR	131,400,994	127,883,682

(\*) The value shown in the "Contribution to own funds" column is net of treasury shares.

### Tier 2 capital

Farmafact Tf 5.875% MZ27 Sub TIER2 Call		
1	Issuer	BANCA FARMAFACTORING spa
2	unique identifier	XS1572408380
3	governing law(s) of the instrument	UK Law, except for subordination clauses governed by Italian law
regulatory treatment		
4	transitional CRR rules	Tier 2 capital
5	post-transitional CRR rules	Tier 2 capital
6	eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated level	Solo and consolidated
7	instrument type	Tier 2 capital instrument Art. 63 CRR
8	amount recognized in regulatory capital (euro units)	98,224,000.00
9	nominal amount of instrument (euro units)	100,000,000.00
9a	issue price	98.224
9b	redemption price	100.00
10	accounting classification	Liability - amortized cost
11	original date of issuance	02/03/2017
12	perpetual or dated	dated
13	original maturity date	02/03/2027
14	issuer call subject to prior supervisory approval	YES
15	optional call date, contingent call dates and redemption amount	call option at 02/03/2022 - redemption at 100
16	subsequent call dates, if applicable	no
coupons/dividends		
17	fixed or floating dividend/coupon	Annual fixed rate with reset 5 years after date of issuance
18	coupon rate and any related index	5.875%
19	existence of a dividend stopper	NO
20a	fully discretionary, partially discretionary or mandatory (in terms of timing)	mandatory

(CONT'D)

Farmafact Tf 5.875% MZ27 Sub TIER2 Call		
20b	fully discretionary, partially discretionary or mandatory (in terms of amount)	mandatory
21	existence of step up or other incentive to redeem	NO
22	noncumulative or cumulative	NO
23	convertible or non-convertible	NON-CONVERTIBLE
24	if convertible, conversion trigger(s)	
25	if convertible, fully or partially	
26	if convertible, conversion rate	
27	if convertible, mandatory or optional conversion	
28	If convertible, specify instrument type convertible into	
29	If convertible, specify issuer of instrument it converts into	
30	Write-down features	Yes
31	If write-down, write-down trigger(s)	BAIL-IN - Banking Union-Bank Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism (SRM) Regulation
32	If write-down, full or partial	full or partial
33	If write-down, permanent or temporary	permanent
34	If temporary write-down, description of write-up mechanism	
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior Preferred
36	Non-compliant transitioned features	NO
37	If yes, specify non-compliant features	

## Section 4

### Capital requirements (Art. 438 CRR)

#### Qualitative disclosure

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 capital to Risk-Weighted Assets.

The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to Risk-Weighted Assets.

The Total Capital Ratio is the ratio of Total Own Funds to Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular No. 262 of December 22, 2005 "*Banks' financial statements: layout and preparation*", the amount of risk-weighted assets was determined as the product of the total of prudential capital requirements and 12.5 (inverse of the minimum obligatory ratio equal to 8%).

The total exposure to risks at December 31, 2020, 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 15.5%, the Tier 1 Capital Ratio is 15.5% and the Total Capital Ratio is 21.6%.

With regard to the CRR Group, the CET1 Capital Ratio is 27.9%, the Tier 1 Capital Ratio is 29.3%, and the Total Capital Ratio is 32.0%.

With a view to approximating the provisions on the new definition of default (i.e Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013) in force since January 1, 2021, the Group, like other intermediaries, was required to adopt the invoice due date (with an original expiry of less than three months) as starting date for counting the overdue amount for the non-recourse factoring product instead of the estimated internal collection date. This therefore means that a significant proportion of exposures to public sector bodies is weighted at 20% under Article 116, paragraph 3 of the CRR, with a resulting improvement in RWAs and capital ratios.

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 BFF Group and within the CRR Group framework. As of February 23, 2021 following the elimination of BFF Luxembourg Sarl's shareholding in the Bank, the Bank of Italy removed the Group of the same name, headed by BFF Luxembourg Sarl, from the register of banking groups.

## Pillar I – Capital adequacy to meet the typical risks associated with financial operations

From an operational standpoint, the absorption of risks is calculated using various methods:

- ▶ “Standardized approach” for credit risk;
- ▶ “Standardized approach” for counterparty risk;
- ▶ “Basic approach” for operational risk;
- ▶ “Standardized approach” for market risk.

### Credit risk

The assessment of credit risk is part of an overall analysis of the capital adequacy of the Banking Group and the CRR Group, in relation to the risks connected with lending.

With this in mind, the “standardized” approach is used to measure credit risk, as governed by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 “*Supervisory provisions for banks*” and Circular No. 286 “*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*,” both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes (“portfolios”), depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.

In particular, in relation to the Regulation mentioned above, the Banking Group and the CRR Group apply the following weighting factors:

- ▶ 0% for exposures to government agencies and central banks with offices in a European Union member state and financed in the local currency, as well as for exposure to other public administration agencies in compliance with specific requirements of relevant supervisory provisions. This category also includes exposures to Spanish public sector entities and other local authorities as provided for by EBA lists “*EU regional governments and local authorities treated as exposures to central governments in accordance with Article 115(2) of Regulation (EU) 575/2013*” and “*EU public-sector entities treated in exceptional circumstances as exposures to the central government, regional government or local authority in whose jurisdiction they are established in accordance with Article 116(4) of Regulation (EU) 575/2013*”;
- ▶ 3.73% for the prefunded contribution to the Cassa Compensazione e Garanzia guarantee fund (qualified counterparty) for repurchase transactions;
- ▶ 20% for (i) exposures to regional government agencies and local authorities with offices in a European Union member state denominated and financed in the local currency, (ii) exposures to public sector entities of countries with Credit Quality Step 1 (including France), (iii) exposures to public sector entities and supervised intermediaries with an original duration of three months or less;
- ▶ 50% for exposures to the public administration agencies of countries with Credit Quality Step 2, which include the exposures to entities of the Polish and Slovakian public sector;
- ▶ 100% for (i) exposures to the public administration agencies of countries with Credit Quality Step 3, 4 and 5 (including Italy, Portugal and Greece—please note that on May 3, 2019 DBRS upgraded Greece from BH to BBL, thus improving the credit quality step from 5 to 4, but leaving the capital absorption percentage unchanged at 100%) and (ii) exposures to the public administration agencies of countries where government agencies are not rated and no credit quality steps are available (including Czech Republic and Croatia);
- ▶ 50% or 100% for receivables due from supervised intermediaries, according to the credit quality step of the country in which they have their offices;
- ▶ 75% for loans to retail and SME counterparties;
- ▶ 100% for loans to private debtors (i.e., businesses);
- ▶ 100% for tangible assets, equity investments and other assets;

- ▶ 150% for non-performing exposures, if the specific value adjustments are less than 20% of the non-collateralized portion, before any adjustments;
- ▶ 100% for non-performing exposures, if the specific value adjustments are 20% or more than the non-collateralized portion, before any adjustments;
- ▶ 250% to deferred tax assets not deducted from own funds.

In order to assign the weights for the calculation of capital requirements for credit risk to the Group's exposures to public sector entities, the Group adopted DBRS Morningstar as the reference ECAI. For this purpose, it should be noted that the unsolicited rating attributed to the Republic of Italy by DBRS was "BBB high". Therefore, exposures to Italian public sector entities with an original maturity of more than 3 months, including receivables due from the National Healthcare Service and Local Healthcare Entities, fall within the Credit Quality Step 3 with an associated weighting of 100%.

However, as at December 31, 2020, with a view to approximating the provisions on the new definition of default (i.e. Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No. 575/2013) in force since January 1, 2021, the Group, like the intermediaries, was required to adopt the invoice due date (with an original expiry of less than three months) as starting date for counting the overdue amount for the non-recourse factoring product instead of the estimated internal collection date. This therefore means that a significant proportion of exposures to public sector bodies is weighted at 20% under Article 116, paragraph 3 of the CRR.

Based on the method described above, the capital requirement for credit risk at December 31, 2020 is €96.6 million for the Banking Group.

### Counterparty risk

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.

For Banca Farmafactoring, counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized approach.

### Operational risk

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

Operational risk, therefore, refers to various types of events that would not be significant unless analysed together and quantified for the entire risk category.

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.

### Market risk

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

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

## Pillar II – The ICAAP/ILAAP Report

The supervisory regulations require intermediaries to adopt control strategies and processes for determining the adequacy of current and future capital. It is the Supervisory Authority's responsibility to verify the reliability and accuracy of the results generated and, where necessary, to take appropriate corrective action.

BFF Banking Group annually submits the "ICAAP/ILAAP Report" to the Bank of Italy, thus providing an update on the internal processes for determining adequacy of capital and of liquidity risk governance and management systems of the Group. In accordance with prudential supervisory provisions, the Group has prepared the "ICAAP/ILAAP Report" approved by the BFF Board of Directors on June 24, 2020. The Report has been prepared in compliance with the new requirements introduced in 2018 by Circular No. 285. In particular, the updates involve, among other, regulatory changes in regards to "Prudential supervision" (Part I, Title III, Chapter 1), which are mainly linked to the introduction of (i) an internal process for determining the adequacy of the liquidity risk governance and management systems ("ILAAP" - Internal Liquidity Adequacy Assessment Process), (ii) new content in the area of internal processes for determining capital adequacy ("ICAAP" - Internal Capital Adequacy Assessment Process) and (iii) different methods for presenting the ICAAP/ILAAP Report to the Bank of Italy. These changes provide further innovations for banks and banking groups that are recognized as being 'less significant' by the European Central Bank pursuant to Regulation (EU) No. 468/2014, which include BFF Banking Group.

In relation to the "Supervisory Review and Evaluation Process" (SREP), on March 31, 2020 the Bank of Italy informed the Group that it had adopted a new capital decision for 2020, and therefore BFF Banking Group must comply with a CET 1 Ratio of 7.85%, a Tier 1 Ratio of 9.65%, and a Total Capital Ratio of 12.05%, with an incremental change of 0.05% for each indicator compared to the previous report.

## Quantitative disclosure

### Capital requirements against credit and counterparty risk - Banking Group

Portfolios / Exposures	CCF	Weighting factors	Credit risk			Counterparty risk		
			Non-weighted exposures	Weighted exposures	Capital requirement	Non-weighted exposures	Weighted exposures	Capital requirement
Exposures to governments and central banks	100%	0%	2,483,891	-	-			
	100%	250%	11,243	28,107	2,249			
Exposures to local entities	20%	20%	7,127	285	23			
	100%	0%	463,297	-	-			
	100%	20%	591,217	118,243	9,459			
Exposures to public sector entities	0%	20%	-	-	-			
	20%	20%	439	18	1			
	100%	20%	1,412,381	282,476	22,598			
	20%	50%	46,737	4,674	374			
	50%	50%	27,816	6,954	556			
	100%	50%	451,751	225,876	18,070			
	100%	100%	39,980	39,980	3,198			
Exposures to supervised intermediaries	100%	0%	1,737,461	-	-			
	100%	3.73%	71,409	2,664	213			
	100%	20%	30,182	6,036	483	602	120	10
Exposures to companies and other entities	0%	100%	91	-	-			
	20%	100%	32,616	6,523	522			
	50%	100%	68,084	34,042	2,723			
	100%	100%	209,192	209,192	16,735			
Past due exposures	100%	100%	3,196	3,196	256			
	0%	150%	-	-	-			
	20%	150%	1,312	393	31			
	50%	150%	-	-	-			
	100%	150%	121,433	182,150	14,572			
Capital instruments	100%	100%	252	252	20			
Other exposures	100%	0%	4	-	-			
	100%	100%	23,295	23,295	1,864			
Retail Exposures	0%	75%	-	-	-			
	20%	75%	22,295	3,344	268			
	50%	75%	4,137	1,552	124			
	100%	75%	38,211	28,658	2,293			
Total			7,899,049	1,207,910	96,633	602	120	10



## Other Capital requirements - Banking Group

	Weighted exposures - RWA	Capital requirement
<i>Risk relating to credit valuation adjustments (CVA)</i>	0	0
<i>Market risks</i>	0	0
<i>Operational risk</i>	407,664	32,613

## Capital ratios - Banking Group and CRR Group

Items/Values	Total 12/31/2020
CET 1/Risk-weighted assets (CET1 capital ratio) (%)	15.5%
Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)	15.5%
Total Own Funds/Risk-weighted assets (Total capital ratio) (%)	21.6%

The capital ratios referring to the scope of consolidation of the CRR Group headed by BFF Luxembourg S.à r.l are provided below.

Items/Values	Total 12/31/2020
CET 1/Risk-weighted assets (CET1 capital ratio) (%)	27.9%
Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)	29.3%
Total Own Funds/Risk-weighted assets (Total capital ratio) (%)	32.0%

## Section 5

### Exposure to counterparty credit risk (Art. 439 CRR)

#### Qualitative disclosure

Counterparty risk represents a particular type of credit risk, characterized by the fact that the exposure, owing to the financial nature of the contract executed between the parties, is uncertain and can change over time in relation to the evolution of the underlying market factors.

If the transactions with a certain counterparty have a positive value, this requirement is generated. If part of the exposure is collateralized, it will be attributed a weighting factor corresponding to the weighting factor assigned to the instrument used as collateral.

For Banca Farmafactoring, counterparty risk can be generated by repurchase agreements having as a counterparty Cassa di Compensazione e Garanzia. Counterparty risk is measured using the standardized approach.

At December 31, 2020, there are repurchase transactions in place with Cassa Compensazione e Garanzia as the counterparty, from which the fair value of the collateral securities is subtracted; the capital requirement is calculated on this value, if positive, as shown in the table below.

The reduced exposure to counterparty risk does not require the use of control instruments beyond those dedicated to ordinary management.

#### Quantitative disclosure

##### Repurchase transactions:

Regulatory Trading Book	Exposure without attenuation of credit risk	financial collateral - simplified method	personal guarantees	Exposure post attenuation of credit risk
SFT Operations	1,669,164	1,668,562		602
TOTAL	1,669,164	1,668,562		602

At the reference date, the capital requirement relating to repurchase transactions amounts to roughly €10 thousand.

## Section 6

### Capital buffers (Art. 440 CRR)

#### Qualitative disclosure

Information is provided below relating to the “Countercyclical capital buffer”, prepared on the basis of the applicable ratios at December 31, 2019 and Delegated Regulation (EU) 2015/1555 of May 28, 2015, supplementing the CRR with regard to regulatory technical standards for the disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer in accordance with Article 440 of the CRR. As established by Article 140(1) of Directive 2013/36/EU (“CRD IV”), the institution-specific countercyclical capital buffer rate consists of the weighted average of the countercyclical buffer rates that apply in the jurisdictions where the relevant credit exposures of the institution are located.

The CRD IV requires designated national authorities to activate an operational framework for the definition of the countercyclical capital buffer (CCyB) rate starting from January 1, 2016.

The rate is subject to quarterly review. The European regulation was implemented in Italy with Bank of Italy Circular No. 285, containing dedicated rules on the CCyB. On the basis of the analysis of the reference indicators, the Bank of Italy has decided to set the countercyclical rate (relating to exposures to Italian counterparties) at 0% again for the first quarter of 2021.

The relevant credit exposures include all classes of exposures other than those pursuant to Article 112(a) to (f) of Regulation (EU) No. 575/2013. The following portfolios are excluded: exposures to central governments or central banks; exposures to regional governments or local authorities; exposures to public sector entities; exposures to multilateral development banks; exposures to international organizations; exposures to institutions.

#### Quantitative disclosure

With reference to December 31, 2020:

- ▶ The countercyclical capital rates at individual country level have generally been established, with the methods succinctly described above, as 0%. The countries with a rate other than zero for which the Group has exposures include: the Czech Republic (0.50%) and Slovakia (1.00%);
- ▶ At consolidated level, the specific countercyclical rate of the CRR Banking Group is 0.00774%.

## Geographical distribution of the relevant credit exposures for the calculation of the countercyclical capital buffer table to be updated GR and Czech inverted

(values in €/000)

row		Generic credit exposures		Trading book exposures		Securitization exposures Own funds requirements		Own funds requirements				Weighting factors of own funds requirements	Countercyclical rate
		Value of exposure for SA method	Value of exposure for IRB method	Sum of trading book long and short position	Value of trading book exposures for internal models	Value of exposure for SA method	Value of exposure for IRB method	Of which: Generic credit exposures	Of which: Trading book exposures	Of which: Securitization exposures	Total		
		010	020	030	040	050	060	070	080	090	100	110	120
010	Breakdown by country	329,642						26,187			26,187	0.0077%	1.5000%
020	Belgium	-						-			-	0.0000%	0.0000%
030	Czech Republic	358						22			22	0.0004%	0.5000%
040	France	17						1			1	0.0000%	0.0000%
050	Greece	25,834						2,067			2,067	0.0000%	0.0000%
060	Italy	92,012						7,389			7,389	0.0000%	0.0000%
070	Netherlands	-						-			-	0.0000%	0.0000%
080	Poland	183,352						14,483			14,483	0.0000%	0.0000%
090	Portugal	321						26			26	0.0000%	0.0000%
100	Slovakia	2,641						192			192	0.0073%	1.0000%
100	Spain	25,106						2,008			2,008	0.0000%	0.0000%
110	Switzerland	-						-			-	0.0000%	0.0000%

## Amount of institution-specific countercyclical buffer (CRR Group)

(values in €/000)

row	Amount of countercyclical buffer	
010	Total amount of risk exposure	1,807,954
020	Institution-specific countercyclical rate	0.00774%
030	Institution-specific countercyclical buffer requirement	140

Please note that the requirement set forth in the table above refers to exposures to private parties resident in the Czech Republic and the Slovak Republic.

## Section 7

### Credit risk adjustments (Art. 442 CRR)

#### Qualitative disclosure

##### Receivables subject to generic adjustments (“collective impairment”)

The impairment model is characterized by:

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

For the purposes of calculating impairment, IFRS 9 sets out general requirements for calculating ECLs and designing stage allocation criteria, without providing specific guidelines on the modelling approach. Therefore, by analysing the data provided as input, the assessment and design of the project for the conversion to IFRS 9 allowed to develop a methodological framework to accommodate the peculiarities of the Group's business consistently with the assets it owns as well as available information, in accordance with the guidelines in the standard.

The key concepts introduced by IFRS 9 and required for the purpose of calculating impairment compared to previous accounting standards are as follows:

- ▶ A forward-looking model, allowing the immediate recognition of all expected losses over the life of the receivable, thus replacing the “incurred loss” criterion. According to the latter, impairment losses were recognized only when there was evidence that they existed (based on the identification of a trigger event). According to IFRS 9, losses shall be recognized based on supportable information that is available without undue cost or effort and includes historical, current and forward-looking data;
- ▶ ECL recalculated at each reporting date to reflect changes in credit risk since initial recognition of the financial instrument;
- ▶ Use of forward-looking information and macroeconomic factors to determine ECL;
- ▶ Introduction of an additional status with respect to the binary classification of performing and non-performing counterparties, to take account of the increase in credit risk.

The ECL calculation model requires a quantitative assessment of future cash flows and assumes that they can be reliably estimated. This requires the identification of certain elements, namely:

- ▶ Probability of default (PD) models and assumptions about the forward distribution of default events, for the calculation of multi-period PDs used to determine the lifetime expected credit loss;
- ▶ LGD model;
- ▶ A deterministic and stochastic EAD model allowing to define a multi-period distribution as well as a 12-month horizon.

The risk parameters that should be modelled to comply with the rationale of considering the full life- time of the financial instrument are as follows:

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

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

## Receivables subject to specific adjustments ("specific impairments")

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

It should be noted that, with reference to past due 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 Group'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 arising from impairment are then individually attributed to each single counterparty classified in such risk position.

As regards the impairment policies adopted, BFF Polska Group and BFF Finance Iberia 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.

On July 24, 2014, the EBA published the "Final Draft Implementing Technical Standards on Supervisory reporting on forbearance and nonperforming exposures" (EBA/ITS /2013/03/rev1 24/7/2014): this document introduces new definitions concerning non-performing exposures and forbearance measures.

These definitions were adopted with the 7th update of Bank of Italy Circular No. 272 of January 20, 2015, and call for the breakdown of impaired assets into:

- ▶ Non-performing loans
- ▶ Unlikely-to-pay positions
- ▶ Past-due impaired exposures

- **Past due exposures.** These are exposures to governments and central banks, local and public entities, non-profit entities and companies that, at the reference date of December 31, 2020, were more than 90 days past due and classified as impaired on the basis of the provisions of Bank of Italy Circular No. 272 of January 20, 2015.

More specifically, exposures to government agencies and central banks, public sector entities and local entities are deemed to be past-due impaired when the debtor has not made any payment on any debt positions owed to a Group company 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, 2020, Net past due exposures of BFF Banking Group totalled €42,105 thousand, of which €39,822 thousand (94.6%) attributable to public administration counterparties and public sector companies in the various countries where BFF Banking Group operates.

Banca Farmafactoring's overall amount of net past due exposures at December 31, 2020 was equal to €39,587 thousand. Of this amount, €39,414 thousand (equal to 99.6%) concerned Italian public administration counterparties and Italian public sector companies. As far as BFF Polska Group is concerned,

net past due exposures amounted to €2,113 thousand. The remaining past due exposures, for a net amount of €405 thousand, refer to BFF Finance Iberia and entirely concerned public administration counterparties.

- **Unlikely to pay:** Unlikely to pay exposures reflect the judgement made by the Group about the unlikelihood, absent such actions as the enforcement of guarantees, that the debtor will fully meet (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 instalments). 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. At December 31, 2020, gross exposures classified as unlikely to pay amounted to €18,743 thousand, of which €18,279 thousand attributable to BFF Polska Group and €463 thousand to BFF Finance Iberia. The total net amount was €15,703 thousand, relating mainly to BFF Polska Group, since the gross exposures of Banca Farmafactoring and BFF Finance Iberia were mostly impaired.
- **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, 2020, the overall total of the Banking Group's non-performing loans, net of impairment, amounted to €66,821 thousand, of which €5,614 thousand purchased already impaired. Net non-performing loans concerning Italian municipalities and provincial government in financial distress amounted to €63,999 thousand, accounting for 95.8% of the total.

Gross non-performing loans amounted to €79,960 thousand. Relevant impairment totalled €13,139 thousand. 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 €1,374 thousand, entirely impaired. Taking account of this amount, too, gross non-performing loans amounted to €81,334 thousand and relevant adjustments totalled €14,513 thousand.

With reference to the Bank, at December 31, 2020 total non-performing loans, net of any estimated impairment losses, amounted to €64,753 thousand, of which €63,999 thousand concerned Italian municipalities and provincial governments in financial distress; this case is classified as non-performing in accordance with the indications given by the Supervisory Authority, despite the fact that BFF Banking Group has the legal right to receive 100% of the capital and late payment interest at the end of the insolvency procedure.

Specifically, the amount of €5,614 thousand refers to receivables due from local entities (municipalities, provinces) already in financial distress at the time of purchase and purchased at special conditions.

The remaining positions referring to Banca Farmafactoring are impaired based on subjective assessments arising from legal opinions. Gross non-performing loans relating to BFF Polska Group amounted to €13,182 thousand; after estimated impairment losses of €11,142 thousand, the net amount totalled €2,041 thousand.

## Amendments due to COVID-19

### *Assessment of the significant increase in credit risk (SICR)*

In light of the BFF Group's business model and the nature of its risk counterparties, the Covid-19 epidemic did not entail changes to the model of the significant increase in credit risk (SICR). However, also in line with the EBA guidelines of December 2, 2020 "Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non legislative moratoria on loan repayments applied in the light of the COVID 19 crisis", the Group has granted some of its counterparties based in Poland moratoria of a strictly voluntary character. For more details on the amount granted and the type of counterparties involved, refer to Section 19 "Disclosure on exposures subject to measures applied in light of the COVID-19 crisis".

### Measuring expected losses

The model for determining risk parameters was also unchanged following the spread of Covid-19. However, actions were taken, resulting in an update by the Bank, as the Parent Company, of its macroeconomic scenarios to include the effects of the pandemic within ECL estimates. To this end, as at June 30, 2020 the Bank updated the macroeconomic scenarios provided by Moody's rating agency. These scenarios are constructed considering the evolution of the unemployment rate and the High Yield Spread in the context of a pandemic whose negative effects are estimated to continue for the period 2020--2022 until the situation returns normal in the following years. The updating of the scenarios also led to a worsening of the baseline scenario, which shifted towards a recessionary trend compatible with the severity of the macroeconomic situation following the Covid-19 pandemic. Based on this evidence, it was not considered necessary to change the weights attributed to each individual scenario, which therefore remained the same as initially attributed (40% for the Baseline scenario, 30% for the High Growth scenario and 30% for the Mild Recession scenario).

At December 31, 2020, in order to quantify the impact of Covid-19, the Bank carried out a sensitivity analysis of the Expected Credit Loss calculation using the PD and LGD curves that take into account the effects of the pandemic, and the PD and LGD curves reported at December 31, 2019 and therefore not affected by it. The analysis showed a greater impact due to the updating of macroeconomic scenarios amounting to approximately €428 thousand. However, this analysis does not take into account the impact on the specific corrections as, by their nature, it is difficult to estimate the quantification of the greater impact due to the pandemic.

## Quantitative disclosure

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

(Values in thousand euros)

Portfolios/quality	Non-performing loans	Unlikely-to-pay positions	Past-due impaired exposures	Other performing past due exposures	Performing exposures	Total
1. Financial assets measured at amortized cost	66,821	15,703	42,105	1,934,420	3,721,530	5,780,579
2. Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	-
3. Financial assets designated at fair value	-	-	-	-	-	-
4. Other financial assets mandatorily measured at fair value	-	-	-	-	-	-
5. Financial assets held for sale	-	-	-	-	-	-
<b>Total 12/31/2020</b>	<b>66,821</b>	<b>15,703</b>	<b>42,105</b>	<b>1,934,420</b>	<b>3,721,530</b>	<b>5,780,579</b>
<b>Total 12/31/2019</b>	<b>61,943</b>	<b>9,526</b>	<b>34,961</b>	<b>684,637</b>	<b>4,542,667</b>	<b>5,333,465</b>



## Breakdown of financial assets by portfolio and credit quality (gross and net amounts)

(Values in thousand euros)

Portfolios/quality	Impaired				Performing			Total (net exposure)
	Gross exposure	Total value adjustments	Net exposure	Total partial write-offs*	Gross exposure	Total value adjustments	Net exposure	
1. Financial assets measured at amortized cost	140,935	16,305	124,629	-	5,659,663	3,712	5,655,950	5,780,579
2. Financial assets measured at fair value through other comprehensive income	-	-	-	0	-	-	-	-
3. Financial assets designated at fair value	-	-	-	0	X	X	0	-
4. Other financial assets mandatorily measured at fair value	-	-	-	0	X	X	0	-
5. Financial assets held for sale	-	-	-	0	0	0	0	-
<b>Total 12/31/2020</b>	<b>140,935</b>	<b>16,305</b>	<b>124,629</b>	<b>0</b>	<b>5,659,663</b>	<b>3,712</b>	<b>5,655,950</b>	<b>5,780,579</b>
<b>Total 12/31/2019</b>	<b>119,992</b>	<b>13,832</b>	<b>106,160</b>	<b>0</b>	<b>5,231,216</b>	<b>3,911</b>	<b>5,227,305</b>	<b>5,333,465</b>

## Distribution by significant geographic areas of exposures to banks, broken down by main exposure types

(Values in thousand euros)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-balance sheet credit exposures</b>										
A.1 Non-performing loans	-	-	-	-	-	-	-	-	-	-
A.2 Unlikely-to-pay	-	-	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-	-	-
A.4 Performing exposures	8,022	3	21,953	6	-	-	-	-	-	-
<b>Total A</b>	<b>8,022</b>	<b>3</b>	<b>21,953</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Off-balance sheet credit exposures</b>										
B.1 Impaired exposures	-	-	-	-	-	-	-	-	-	-
B.2 Performing exposures	5,200	0	-	-	-	-	-	-	-	-
<b>Total B</b>	<b>5,200</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>	<b>13,222</b>	<b>3</b>	<b>21,953</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2019</b>	<b>81,546</b>	<b>7</b>	<b>38,943</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>0</b>

## Distribution by significant geographic areas of exposures to Italian banks, broken down by main exposure types

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-Balance-sheet credit exposures</b>								
A.1 Non-performing loans	-	-	-	-	-	-	-	-
A.2 Unlikely to pay	-	-	-	-	-	-	-	-
A.3 Impaired past-due exposures	-	-	-	-	-	-	-	-
A.4 Performing exposures	7,122	2	318	0	582	1	-	-
<b>Total A</b>	<b>7,122</b>	<b>2</b>	<b>318</b>	<b>0</b>	<b>582</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>B. Off-Balance Sheet exposures</b>								
B.1 Impaired exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	5,200	0	-	-
<b>Total B</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,200</b>	<b>0</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) 12/31/2020</b>	<b>7,122</b>	<b>2</b>	<b>318</b>	<b>0</b>	<b>5,782</b>	<b>1</b>	<b>-</b>	<b>-</b>
<b>Total (A+B) 12/31/2019</b>	<b>4,646</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>76,894</b>	<b>3</b>	<b>6</b>	<b>-</b>

## Distribution by significant geographic areas of exposures to customers, broken down by main exposure types

(Values in thousand euros)

Exposures/Geographic areas	Italy		Other European countries		America		Asia		Rest of the World	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-balance sheet credit exposures</b>										
A.1 Non-performing loans	64,753	1,907	2,068	11,232	-	-	-	-	-	-
A.2 Unlikely-to-pay	0	-	15,702	3,040	-	-	-	-	-	-
A.3 Impaired past-due exposures	37,907	44	4,199	83	-	-	-	-	-	-
A.4 Performing exposures	3,880,373	1,264	1,744,500	2,439	-	-	-	-	-	-
<b>Total A</b>	<b>3,983,033</b>	<b>3,216</b>	<b>1,766,468</b>	<b>16,793</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>B. Off-balance sheet credit exposures</b>										
B.1 Impaired exposures	-	-	1,312	4	-	-	-	-	-	-
B.2 Performing exposures	1,026	-	209,342	521	-	-	-	-	-	-
<b>Total B</b>	<b>1,026</b>	<b>0</b>	<b>210,654</b>	<b>525</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>	<b>3,984,059</b>	<b>3,216</b>	<b>1,977,122</b>	<b>17,318</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2019</b>	<b>3,517,051</b>	<b>2,714</b>	<b>1,863,594</b>	<b>15,596</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Distribution by significant geographic areas of exposures to Italian customers, broken down by main exposure types

(Values in thousand euros)

Exposures/Geographic areas	Northwest Italy		Northeast Italy		Central Italy		Southern Italy and Islands	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-Balance-sheet credit exposures</b>								
A.1 Non-performing loans	583	386	173	48	2,513	1,151	61,484	322
A.2 Unlikely to pay	-	-	-	-	0	-	-	-
A.3 Impaired past-due exposures	1,816	5	2,037	0	2,880	2	31,174	36
A.4 Performing exposures	202,698	235	118,726	138	2,660,057	708	898,892	184
<b>Total A</b>	<b>205,097</b>	<b>627</b>	<b>120,936</b>	<b>186</b>	<b>2,665,450</b>	<b>1,861</b>	<b>991,550</b>	<b>542,171</b>
<b>B. Off-balance sheet credit exposures</b>								
B.1 Impaired exposures	-	-	-	-	-	-	-	-
B.2 Performing exposures	-	-	-	-	1,026	-	-	-
<b>Total B</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,026</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>	<b>205,097</b>	<b>627</b>	<b>120,936</b>	<b>186</b>	<b>2,666,476</b>	<b>1,861</b>	<b>991,550</b>	<b>542</b>
<b>Total (A+B) 12/31/2019</b>	<b>229,389</b>	<b>565</b>	<b>115,324</b>	<b>48</b>	<b>2,096,957</b>	<b>1,605</b>	<b>1,012,064</b>	<b>3,969</b>

## Distribution by economic sector or counterparty type of exposures to customers, broken down by exposure type (carrying amount).

(Values in thousand euros)

Exposures/ Counterparties	Public administrations		Financial companies		Financial companies (of which: insurance companies)		Non-financial companies		Households	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
<b>A. On-balance sheet credit exposures</b>										
A.1 Non-performing loans	64,175	492	-	-	-	-	2,221	11,516	425	1,131
- of which: forborne exposures	-	-	-	-	-	-	14	75	-	-
A.2 Unlikely-to-pay	-	-	-	-	-	-	15,703	3,040	-	-
- of which: forborne exposures	-	-	-	-	-	-	570	880	-	-
A.3 Impaired past-due exposures	39,822	42	-	-	-	-	2,254	84	30	0
- of which: forborne exposures	-	-	-	-	-	-	386	15	-	-
A.4 Performing exposures	5,265,152	1,012	139,510	47	0	0	190,155	2,214	30,055	430
- of which: forborne exposures	-	-	-	-	-	-	2,390	61	-	-
<b>Total A</b>	<b>5,369,148</b>	<b>1,547</b>	<b>139,510</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>210,333</b>	<b>16,854</b>	<b>30,510</b>	<b>1,561</b>
<b>B. Off-balance sheet credit exposures</b>										
B.1 Impaired exposures	-	-	-	-	-	-	1,312	4	-	-
B.2 Performing exposures	82,118	1	1,026	-	-	-	127,224	520	-	-
<b>Total B</b>	<b>82,118</b>	<b>1</b>	<b>1,026</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>128,536</b>	<b>524</b>	<b>0</b>	<b>0</b>
<b>Total (A+B) 12/31/2020</b>	<b>5,451,266</b>	<b>1,548</b>	<b>140,536</b>	<b>47</b>	<b>0</b>	<b>0</b>	<b>338,869</b>	<b>17,378</b>	<b>30,510</b>	<b>1,561</b>
<b>Total (A+B) 12/31/2019</b>	<b>4,907,157</b>	<b>1,493</b>	<b>64,363</b>	<b>44</b>	<b>0</b>	<b>0</b>	<b>392,468</b>	<b>15,507</b>	<b>16,657</b>	<b>1,265</b>

## Financial assets, Commitments to disburse funds and financial guarantees given: trend in total impairments and total provisions

(Values in thousand euros)

Description/risk stages	Total value adjustments												Total provisions on commitments to disburse funds and financial guarantees issued			Total		
	Assets in stage one				Assets in stage two				Assets in stage three									
	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Financial assets measured at amortized cost	Financial assets measured at fair value through other comprehensive income	of which: individual write-downs	of which: collective write-downs	Of which: purchased or originated credit-impaired financial assets	Stage one	Stage two		Stage three	
Opening balances	2,456	11	-	2,456	1,446	-	-	1,446	13,832	-	13,832	-	224	560	-	21	18,325	
Increases in purchased or originated financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Derecognitions other than write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net value adjustments/write-backs for credit risk (+/-)	516		-	516	706	-	-	706	2,474	-	2,474	-	-	10	39	-	17	2,229
Contractual amendments without derecognitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Changes in estimate methodology	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Write-offs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Other changes	-	11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	11	
Closing balances	2,972	-	-	2,972	740	-	-	740	16,305	-	16,305	-	214	521	-	4	20,543	
Recoveries from receipts on written-off financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Write-offs recognized directly on the income statement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	

## Cash exposures to customers: dynamics of total value adjustments

(Values in thousand euros)

Descriptions/Categories	Non-performing loans		Unlikely-to-pay positions		Past-due impaired exposures	
	Total	of which: forborne exposures	Total	of which: forborne exposures	Total	of which: forborne exposures
<b>A. Total opening adjustments</b>	<b>11,433</b>	<b>102</b>	<b>2,310</b>	<b>915</b>	<b>88</b>	<b>1</b>
- of which: assets sold but not derecognized	1	-	-	-	4	-
<b>B. Increases</b>	<b>2,155</b>	<b>-</b>	<b>874</b>	<b>-</b>	<b>106</b>	<b>15</b>
B.1 value adjustments to purchased or originated credit impaired assets	-	-	-	-	-	-
B.2 other value adjustments	954	-	-	-	-	-
B.3 losses on disposal	-	-	-	-	-	-
B.4 transfers from other categories of impaired exposures	349	-			85	15
B.5 contractual amendments without derecognition	-	-	-	-	-	-
B.6 other increases	852	-	874	-	21	-
<b>C. Decreases</b>	<b>449</b>	<b>27</b>	<b>144</b>	<b>36</b>	<b>68</b>	<b>1</b>
C.1 write-backs from valuation	-	-	-	-	-	-
C.2 write-backs from collection	283	13		-	3	-
C.3 gains on disposal	-	-	-	-	-	-
C.4 write-offs	-	-	-	-	-	-
C.5 transfers to other categories of impaired exposures	166	14		-	59	1
C.6 contractual amendments without derecognition	-	-	-	-	-	-
C.7 other decreases		-	144	36	6	-
<b>D. Total final adjustments</b>	<b>13,139</b>	<b>75</b>	<b>3,040</b>	<b>880</b>	<b>127</b>	<b>15</b>
- of which: assets sold but not derecognized					0	-

## Section 8

### Unencumbered assets (Art. 443 CRR)

#### Qualitative disclosure

Bank of Italy Circular No. 285 requires banks to publish information on encumbered and unencumbered assets, with the methods laid out in the European Banking Authority guidelines of June 27, 2014.

Specifically, the required information is meant to evaluate recourse by institutions to forms of secured funding (for example, covered bank bonds, repurchase agreements, central bank credit lines).

Institutions publish information on encumbered and unencumbered assets at consolidated level by product, also taking into account the specific instructions in Annex XVII of European Union Commission Implementing Regulation 2015/79.

Pledged assets, assets subject to withdrawal limitations or otherwise reserved for credit enhancement are considered encumbered.

The reporting scope is the CRR Group.

#### Quantitative disclosure

##### Template A - Disclosure on encumbered assets recognized in the financial statements

	Encumbered assets		Unencumbered assets	
	Carrying amount	Fair Value	Carrying amount	Fair Value
<b>Total Assets of the Banking Group</b>	<b>2,331,723</b>	<b>x</b>	<b>3,763,492</b>	<b>x</b>
1. Equity instruments	0		164	164
2. Debt securities	1,750,654	1,772,189	20,228	20,508
3. Loans	580,981		3,647,702	
4. Other assets	89		95,398	



## Template B - Collateral received by the reporting institution

The table below provides the financial statement disclosure relating to collateral received. This collateral is not relevant for Credit Risk Mitigation purposes.

(Values in thousand euros)

	Gross exposure	Net exposure	Collateral (1)					Personal guarantees (2)							Total (1)+(2)	
			Real estate - mortgages	Real estate - Loans for leases	Finance lease properties	Securities	Other collateral	Credit derivatives				Endorsement credits				
								CLN	Other derivatives			Public administrations	Banks	Other financial companies	Other entities	
								Central counterparties	Banks	Other financial companies	Other entities					
1. Secured on-balance sheet exposures:	2,204	2,091	153				1,937									2,091
1.1 totally secured	2,204	2,091	153				1,937									2,091
- of which impaired	266	153	153													153
1.2 partially secured																
- of which impaired																
2. Secured off-balance sheet credit exposures:																
2.1 totally secured																
- of which impaired																
2.2 partially secured																
- of which impaired																

## Template C - Encumbered assets/collateral received and associated liabilities

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own securities issued other than covered bonds and ABSs encumbered
Liabilities associated with assets, collateral received or own securities encumbered	2,114,600	2,194,050

BFF Banking Group's operations include the following types of encumbered assets:

- ▶ High quality debt securities issued by the Italian government, encumbered as part of secured funding transactions (repos);
- ▶ Guarantee funds and initial margins placed with clearing systems, central counterparties or intermediary institutions.
- ▶ Trade receivables (acquired on a definitive basis), usable as underlying assets for raising medium/long-term liquidity, typically to back securitization transactions or loans received from factoring companies (assigned but not derecognized from the financial statement assets);
- ▶ Reserve requirements

The types of assets that BFF Banking Group may use as collateral to back European Central Bank (ECB) financing are listed below.

- ▶ "ECB eligible" trade receivables (acquired on a definitive basis), and securities deposited in the Earnings pooling account for refinancing activity through open market operations and use for intraday activity;

Roughly 75.1% of the entire amount of encumbered assets consists of owned government bonds securing repurchase transactions and Eurosystem refinancing.

## Section 9

### Use of ECAIs (Art. 444 CRR)

#### Qualitative disclosure

The assessment of credit risk is part of an overall analysis of the adequacy of the Group's capital in relation to the risks connected with lending.

With this in mind, the Group uses the "standardized" approach to measure credit risk, as governed by Regulation (EU) No. 575/2013 (CRR) and adopted by the Bank of Italy Circular No. 285 "Supervisory provisions for banks" and Circular No. 286 "Instructions for the preparation of supervisory reporting by banks and securities intermediaries," both dated December 17, 2013, and subsequent amendments. This approach involves the classification of exposures into different classes ("portfolios"), depending on the type of counterparty, and the application of diversified weighted ratios to each portfolio.

In particular, for the "Governments and central banks" portfolio, weighting depends on the rating attributed by the ECAIs or the ECAs of the individual countries; for the "Supervised intermediaries" portfolio, weighting is based on the rating of the country where the supervised intermediary is located; for the "Public sector entities" portfolio, the weighting rules are the same as those established for supervised intermediaries.

Banca Farmafactoring has adopted Dominion Bond Rating Service (DBRS) as its reference ECAI. The unsolicited rating attributed to the Republic of Italy by DBRS was "BBB high". Exposures to the Italian Public Administration, including receivables due from the National Healthcare Service and Local Healthcare Entities, fall within the Credit Quality Step 3 with a weighting of 100%.

A reconciliation between the credit rating classes 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 Banking Group's exposures are represented primarily by exposures with counterparties belonging to the Public Administration or with healthcare companies of the countries in which the Group operates.

For easy reference, the rating classes relating to the countries in which the Banking Group companies operate at December 31, 2020 are provided below.

Class 1: France

Class 2: Spain, Poland and Slovakia

Class 3: Italy and Portugal

Class 4: Greece

## Quantitative disclosure

The distribution of the Banking Group's exposures subject to credit and counterparty risk is shown below, according to the standardized method, by credit rating class and regulatory asset class.

Portfolios/Exposures	CFF	Weighting factors	Credit risk			Counterparty risk		
			Non-weighted exposures	Weighted exposures	Capital requirement	Non-weighted exposures	Weighted exposures	Capital requirement
<b>Exposures to governments and central banks</b>			-	-	-	0	0	0
Credit quality class: 1	100%	0%	43.23	-	-	0	0	0
Credit quality class: 2			115,588.47	-	-	0	0	0
Credit quality class: 3			2,184,548.08	-	-	0	0	0
Credit quality class: 4			10,430.89	-	-	0	0	0
Credit quality class: no rating			173,280.61	-	-	0	0	0
Credit quality class 2	100%	250%	3,918.10	9,795.26	783.62	0	0	0
Credit quality class 3			7,324.77	18,311.93	1,464.95	0	0	0
<b>Exposures to local entities</b>			-	-	-	0	0	0
Credit quality class: 2	100%	0%	463,296.67	-	-	0	0	0
Credit quality class: 3			0.82	-	-	0	0	0
Credit quality class: 2	20%	20%	7,127.05	285.08	22.81			
Credit quality class: 2	100%	20%	85,138.06	17,027.61	1,362.21	0	0	0
Credit quality class: 3	100%		505,493.54	101,098.71	8,087.90	0	0	0
Credit quality class: 4	100%		22.21	4.44	0.36	0	0	0
Credit quality class: no rating	100%		563.28	112.66	9.01	0	0	0
<b>Exposures to public sector entities</b>			-	-	-	0	0	0
Credit quality class: 1	100%	20%	4,340.61	868.12	69.45	0	0	0
Credit quality class: 2	0%		-	-	-	0	0	0
Credit quality class: 2	20%		438.63	17.55	1.40	0	0	0
Credit quality class: 2	100%		199,388.35	39,877.67	3,190.21	0	0	0
Credit quality class: 3	100%		1,165,981.82	233,196.36	18,655.71	0	0	0
Credit quality class: 4	100%		41,439.84	8,287.97	663.04	0	0	0
Credit quality class: no rating	100%		1,230.12	246.02	19.68	0	0	0
Credit quality class: 2	20%	50%	46,736.83	4,673.68	373.89	0	0	0
Credit quality class: 2	50%		27,815.60	6,953.90	556.31	0	0	0
Credit quality class: 2	100%		451,751.48	225,875.74	18,070.06	0	0	0
Credit quality class: 2	100%	100%	-	-	-	0	0	0
Credit quality class: 3	100%		38,717.66	38,717.66	3,097.41	0	0	0
Credit quality class: 4	100%		-	-	-	0	0	0
Credit quality class: no rating	100%		1,262.38	1,262.38	100.99	0	0	0
<b>Exposures to supervised intermediaries</b>			-	-	-	0	0	0
Credit quality class: no rating	100%	0%	1,737,460.90	-	-	0	0	0
Credit quality class: no rating	100%	3.73%	71,408.72	2,663.55	213.08	0	0	0

(CONT'D)

Portfolios/Exposures	CFF	Weighting factors	Credit risk			Counterparty risk		
			Non-weighted exposures	Weighted exposures	Capital requirement	Non-weighted exposures	Weighted exposures	Capital requirement
Credit quality class: 2	100%	20%	21,526.73	4,305.35	344.43	0	0	0
Credit quality class: 3	100%		7,644.08	1,528.82	122.31	602	120	10
Credit quality class: 4	100%		77.16	15.43	1.23	0	-	0
Credit quality class: no rating	100%		934.38	186.88	14.95	0	0	0
<b>Exposures to companies and other entities</b>			-	-	-	0	0	0
Credit quality class: no rating	0%	100%	91.46	-	-	0	0	0
Credit quality class: no rating	20%		32,615.71	6,523.14	521.85	0	0	0
Credit quality class: no rating	50%		68,084.08	34,042.04	2,723.36	0	0	0
Credit quality class: no rating	100%		209,191.84	209,191.84	16,735.35	0	0	0
<b>Past due exposures</b>			-	-	-	0	0	0
Credit quality class: 3	100%	100%	77.96	77.96	6.24	0	0	0
Credit quality class: no rating	100%		3,117.98	3,117.98	249.44	0	0	0
Credit quality class: 2	100%	150%	407.77	611.66	48.93	0	0	0
Credit quality class: 3	100%		101,830.08	152,745.12	12,219.61	0	0	0
Credit quality class: no rating	0%		-	-	-	0	0	0
Credit quality class: no rating	20%		1,311.60	393.48	31.48	0	0	0
Credit quality class: no rating	50%		-	-	-	0	0	0
Credit quality class: 4	100%		1,680.62	2,520.92	201.67	0	0	0
Credit quality class: no rating	100%		17,514.66	26,271.99	2,101.76	0	0	0
<b>Equity instruments</b>			-	-	-	0	0	0
Credit quality class: no rating	100%	100%	251.87	251.87	20.15	0	0	0
<b>Other exposures</b>			-	-	-	0	0	0
Credit quality class: no rating	100%	0%	3.95	-	-	0	0	0
Credit quality class: 2	100%	100%	2,263.52	2,263.52	181.08	0	0	0
Credit quality class: 3	100%		14,319.13	14,319.13	1,145.53	0	0	0
Credit quality class: no rating	100%		6,712.30	6,712.30	536.98	0	0	0
<b>Retail Exposures</b>			-	-	-	0	0	0
Credit quality class: no rating	0%	75%	-	-	-	0	0	0
Credit quality class: no rating	20%		22,295.32	3,344.30	267.54	0	0	0
Credit quality class: no rating	50%		4,137.41	1,551.53	124.12	0	0	0
Credit quality class: no rating	100%		38,211.14	28,658.36	2,292.67	0	0	0
<b>Total</b>			<b>7,899,049.47</b>	<b>1,207,909.91</b>	<b>96,633</b>	<b>602</b>	<b>120</b>	<b>10</b>

## Section 10

### Exposure to market risk (Art. 445 CRR)

#### MARKET RISKS

##### Qualitative disclosure

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

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

##### Quantitative disclosure

At December 31, 2020, there were no positions generating requirements relating to market risks.

#### EXCHANGE RISK

##### Qualitative disclosure

Exchange rate risk is represented by the Banking Group's exposure to fluctuations in currency exchange rates, considering positions in foreign currency as well as those with indexation clauses linked to the exchange rate trends of a given currency.

The Group's asset portfolio at December 31, 2020 is denominated as follows:

- ▶ Euro;
- ▶ Polish zloty;
- ▶ Czech koruna;
- ▶ Croatian kuna.

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 operates under a natural hedging approach and has entered into hedging instruments to hedge exchange rate risk where the natural hedging strategy cannot be pursued and/ or is not effective.

With regard to the acquisition of BFF Polska Group, the exchange risk arising from the acquisition of the investment in Polish zloty was naturally hedged by loan agreements, so that the asset and liability positions offset each other and, consequently, there is an open position in currency within the limits set by the Risk Appetite Framework approved by the Bank's BoD.

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 BFF Polska Group's equity.

As of December 31, 2020 the BFF Banking Group does not hold any forex swap derivative instruments.

## Quantitative disclosure

The portfolio of Group assets is also expressed in currencies other than the euro; as a result a methodology for the measurement and management of this risk has been adopted. Exchange risk is monitored by the Risk Management Function, in line with the requirements of European regulations (EU Regulation No. 575/2013 - CRR).

### Breakdown by currency of assets, liabilities and derivatives

Items	Currencies					
	US Dollar	Pounds	Yen	Canadian Dollar	Swiss francs	Other currencies
<b>A. Financial assets</b>						<b>713,381</b>
A.1 Debt instruments						
A.2 Equity instruments						
A.3 Loans to banks						7,816
A.4 Loans to customers						705,564
A.5 Other financial assets						
<b>B. Other assets</b>						
<b>C. Financial liabilities</b>						<b>(713,331)</b>
C.1 Amounts due to banks						(548,748)
C.2 Deposits from customers						(164,582)
C.3 Debt instruments						
C.4 Other financial assets						
<b>D. Other liabilities</b>						
<b>E. Financial derivatives</b>						
- Options						
+ Long positions						
+ Short positions						
- Other derivatives						
+ Long positions						
+ Short positions						
<b>Total assets</b>						<b>713,381</b>
<b>Total liabilities</b>						<b>(713,331)</b>
<b>Difference (+/-)</b>						<b>50</b>

(\*) the "Other currencies" are represented by the zloty Czech koruna and Croatian kuna.

## Section 11

### Operational risk (Art. 446 CRR)

#### Qualitative disclosure

Operational risk is the risk of incurring a loss due to inadequacy or failure of procedures, human resources and internal systems or as a result of external events. This category includes, amongst other items, losses caused by fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk includes legal risk but excludes strategic and reputational risks.

Operational risk, therefore, refers to various types of events that would not be significant unless analysed together and quantified for the entire risk category.

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

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

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

With reference to the quantitative assessment/measurement of operational risk, BFF Banking Group adopts a risk management framework founded on two main processes: the Risk Self Assessment (“RSA”) and Loss Data Collection (“LDC”).

With respect to the RSA process, within the Group scope, the Parent Company carries out the annual Risk Self Assessment - involving the O.U.s/Company functions exposed to potential operational risk - also in order to utilize its output to quantify exposure to operational risk in economic terms.

The Risk Self Assessment approach is particularly relevant with reference to the numerical assessment of the components of frequency and impact of forward-looking risk. In particular, these components are:

- ▶ Expected frequency of occurrence of events potentially generating operational losses;
- ▶ “Typical” impact of the loss, representing an estimate of the potential losses deriving from the occurrence of the individual risk event in normal operating conditions;
- ▶ “Worst-case” impact, representing the economic impact resulting from the occurrence of the individual loss event, assuming a scenario of extreme but plausible severity in light of operating context factors and the effectiveness of the internal control system.



Operational risks are identified on the basis of company processes, considering the classification of the loss events ("Event Type" or "ET") defined by supervisory provisions. In particular, to identify operational risks, reference is made to the specific taxonomies adopted by the Group relating to:

- ▶ The types of risk events that may generate operational losses;
- ▶ The organizational processes exposed to operational risk events;
- ▶ Risk factors inside or outside the Group, at the origin of the occurrence of the harmful event, direct or indirect;
- ▶ The business lines defined by the Supervisory Authority in which the operational loss event may take place.

Both the catalogue of operational risk events and that of organizational processes were defined at Group level in compliance with supervisory provisions.

Following the identification of the main risks within company processes, the process owner analyses and evaluates them through a quantitative estimate of the frequency and relative economic loss (typical and worst-case), taking a potential approach.

The formulation of estimates for each scenario evaluated by the assessors is supported by numerical scales provided by the Risk Management Function and built on the basis of benchmark data. In particular, the following have been provided:

- ▶ A scale supporting the estimate of expected frequency values, expressed in "number of annual events";
- ▶ "Custom" monetary scales based on second-level Event Type supporting typical and worst-case potential loss estimates.

The estimates take into account internal context factors, particularly the potential causes triggering the risk ("Risk Factors"), the reference company processes and the internal control system and the relative developments already planned. In this sense, the process leads to an estimate of "residual risk".

The operational risk results obtained from the forward-looking assessment process have also been used for quantifying internal capital against operational risk by developing a scenario-based Loss Distribution Approach ("LDA"). This approach, inspired by sector best practices, taking into consideration the expected frequency and typical and worst-case impact estimates, models the statistical characteristics of the frequency and scenario components.

Loss Data Collection represents the activity of collecting operational losses or the amount of the economic effect generated by an operating event, caused by one or more risk factors. The information collected is part of a relationship between different entities, or risk event, risk factor and economic effect. Each operating loss is therefore classified based on event type, underlying risk factor(s) and the resulting economic effect.

Furthermore, within the framework of the measures adopted regarding the exposure to operational risk, the Group also monitors the following specific risks, considered to be operational risks or pillar II risks.

- ▶ **The risk of money laundering and terrorist financing**, or the current or forward-looking risk of losses deriving from the repercussions, including reputational, of money laundering and terrorist financing activities. For the Group, this means primarily the risk that the Bank's financial and commercial counterparties, suppliers, partners, associates and consultants may be parties to transactions that might potentially facilitate the laundering of money coming from illegal or criminal activities.
- ▶ **Compliance risk**, concerning the risk of legal and administrative penalties, significant financial losses or reputational damage due to failure to comply not only with laws and regulations but also with internal and conduct standards applicable to corporate activities. For this type of risk, a periodic update of the relevant assessment methodology is performed. Such methodology is developed for all activities falling within

the 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).

- ▶ **ICT risk**, or the current or forward-looking risk of losses due to the inadequacy or failure of hardware and software of technical infrastructure susceptible to compromising the availability, integrity, accessibility and security of such infrastructure and data.

In order to ensure constant compliance with law provisions and corporate privacy and security policies, the Parent Company requires that an annual risk analysis of the company's information system be conducted to assess depending on regulatory, organizational and system changes as well as technological advances the level of residual risk of company data and assets.

The Group adopts the same risk analysis methodology for all Group Legal Entities.

The purpose of risk analysis activities is, most notably, to identify and consider possible events that could lead to business process disruption. These events are identified starting from the risk scenarios defined in Bank of Italy Circular No. 285.

The purpose of the risk analysis is also to identify current vulnerabilities, so as to be able to define possible solutions capable of reducing the impact of the occurrence of those events. The elimination or reduction of the impact and/or likelihood of occurrence of threats takes place by preparing and adopting adequate countermeasures and procedures, for both protection and prevention.

In this sense, the risk analysis also focuses on identifying existing countermeasures for risk mitigation, identifying, if necessary, any points for improvement.

Based on the results of this activity, the competent company functions take company policy decisions intended to lower the risk (establishing the implementation of new countermeasures or controls to decrease system vulnerability), assume the risk (risks with a low probability and low level of impact), transfer the risk through forms of insurance (when the analysis results indicate risks of low probability with potentially high impacts), or maintain the *status quo* (levels of risk reduced to a minimum and, therefore acceptable risks).

The risk analysis includes the risks of destruction or loss, including accidental (qualified as risk inherent in availability), unauthorized access (qualified as risk inherent in confidentiality), unauthorized processing and processing not compliant with the purposes for which the data were collected (qualified as risk inherent in integrity).

The Group also incorporates the requirements on the protection of personal data (General Data Protection Regulation. GDPR) and Payment Service Security (Payment Services Directive, PSD2) with adequate documentary and procedural oversight mechanisms.

- ▶ **Conduct risk**, or the current or forward-looking risk of losses due to the inappropriate offer of financial services and the ensuing procedural costs, including cases of intentionally inappropriate or negligent conduct.

Within the operational risk management framework, the Group monitors and oversees the current or forward-looking risk of losses due to the inappropriate offer of financial services and the ensuing procedural costs, including cases of intentionally inappropriate or negligent conduct (e.g. internal fraud).

The Group's processes and internal regulations are drafted to discourage, *inter alia*, improper business practices, avoid market abuse and insider trading or internal offences by employees.

The design of new products or entry into new markets is overseen within the RAF by a dedicated process involving the company control functions.

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

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

## Quantitative disclosure

Based on the method described above, the capital requirement for operational risk at December 31, 2020 is €32,613 thousand for the TUB Group. With respect to the CRR Group, operational risk comes to €32,626 thousand.

## Section 12

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

#### Qualitative information

The Group does not hold significant exposures in equities in the banking book. The only assets of this type, included under "Assets available for sale", are represented by:

- ▶ The equity investment, for €17 thousand, in the company Nomisma S.p.A. Società di Studi Economici, accounted for at cost, in the absence of other measurement inputs. The value remained unchanged compared to the previous year;
- ▶ The amount charged to Banca Farmafactoring as part of its contributions to the Voluntary Scheme established by FITD in relation to the actions taken to support Cassa di Risparmio di Cesena for a total of €147 thousand, equal to the fair value communicated directly by FITD in January 2018. The Bank has already announced its intention to withdraw from the Voluntary Scheme on September 17, 2017. For this reason, the Bank will no longer be forced to make any additional payments to the aforesaid Voluntary Scheme.

Please note that, as regards the valuation of equity securities, as envisaged by the new IFRS 9, any changes in value of the instruments (with the exception of dividends) will directly impact equity, without being carried on the income statement, with an indication on the statement of comprehensive income.

#### Quantitative information

The main information about the equity investment in Nomisma is provided below.

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

Registered office	Bologna - Strada Maggiore 44
Share capital	EUR 6,963,500 fully paid

(Amounts in euro units, at 12/31/2019)

Shareholders' equity	8,916,584
Profit (loss) for the period	716,484

## Section 13

### Exposure to interest rate risk on positions not included in the trading book (Art. 448 CRR)

#### Qualitative disclosure

##### General aspects, management procedures and measurement methods for interest rate and price risk

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 Circular No. 285/2013 (Part I, Title III, Chapter I) and the recent guidelines of the European Banking Authority (EBA)<sup>14</sup>. 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 interest rate sensitivity analysis 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, while for variable-rate assets and liabilities, based on the interest rate renegotiation date. To this end, it should be noted that the Group has developed a methodology on the core business of assets which represents the actual exposure to this type of risk with respect to the regulatory approach;
- ▶ 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 weighting factors, 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.

Furthermore, BFF Banking Group, in line with the provisions of Bank of Italy Circular No. 285/2013, evaluates the potential impact of changes in interest rates according to income dimensions. In keeping with the main market practice, a Repricing Gap approach is used to quantify the impact on the interest margin.

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 Administration 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.

<sup>14</sup> 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 activities".

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 Function.

Furthermore, at the operational level, on a monthly basis the Finance and Administration Department monitors the interest rate risk, as well its management, through specific reporting.

### **Fair value hedging activities**

At December 31, 2020, BFF Banking Group has no forex swap contracts in place, defined with the objective of covering intra-group loans (between the Parent Company Banca Farmafactoring and its subsidiaries in the BFF Polska Group).

### **Cash flow hedging activity**

At December 31, 2020, BFF Banking Group had no derivative contract intended to offset the potential losses associated with certain types of risks.

## Quantitative information

The situation deriving from the application of the interest rate risk management framework at December 31, 2020, shown below, identifies a potential loss in the present value of cash flows equal to €1.5 million, equivalent to a risk index of 0.25%.

### CONSOLIDATED INTEREST RATE RISK (CRR GROUP) AT DECEMBER 31, 2020 [€/mln]

Maturity	Assets	Liabilities	Delta	Market shock	Weighted value
On demand and on revocation	2,398.6	162.9	2,235.8	0.00%	-
up to 1 month	613.5	1,960.3	-1,346.8	-0.32%	0.2
more than 1 month to 3 months	207.0	627.6	-420.5	-0.28%	0.2
more than 3 months to 6 months	997.2	682.7	314.5	-0.25%	-0.3
more than 6 months to 9 months	27.9	274.8	-246.9	-0.27%	0.4
more than 9 months to 12 months	29.9	165.2	-135.3	-0.29%	0.3
more than 12 months to 18 months	206.8	323.4	-116.6	-0.32%	0.5
more than 18 months to 24 months	48.4	35.0	13.4	-0.38%	-0.1
more than 2 years to 3 years	356.5	343.6	12.9	-0.34%	0.1
more than 3 years to 4 years	108.2	25.9	82.2	-0.32%	-0.8
more than 4 years to 5 years	7.8	21.9	-14.1	-0.29%	0.2
more than 5 years to 6 years	36.9	-	36.9	-0.27%	-0.5
more than 6 years to 7 years	32.9	103.7	-70.7	-0.26%	1.2
more than 7 years to 8 years	1.2	-	1.2	-0.25%	-0.0
more than 8 years to 9 years	1.1	-	1.1	-0.24%	-0.0
more than 9 years to 10 years	-	-	-	-0.24%	-
more than 10 years to 15 years	0.6	-	0.6	-0.17%	-0.0
more than 15 years to 20 years	1.6	-	1.6	0.00%	-0.0
20 years or more	-	-	-	0.00%	-
TOTAL WEIGHTED VALUE (TWV)					1.5
OWN FUNDS					578.8
RISK INDEX (TWV/OWN FUNDS)					0.25%

# IMPACT OF CONSOLIDATED INTEREST RATE RISK ON THE INCOME COMPONENT AT DECEMBER 31, 2020 [€/mln]

Maturity	Assets	Liabilities	Delta	Weighting factor	Weighted value
On demand and on revocation	2,398.6	162.9	2,235.8	99.72%	2,229.5
up to 1 month	613.5	1,960.3	-1,346.8	95.69%	-1,288.9
more than 1 month to 3 months	207.0	627.6	-420.5	83.33%	-350.4
more than 3 months to 6 months	997.2	682.7	314.5	62.50%	196.6
more than 6 months to 12 months	57.8	440.6	-382.9	25.00%	-95.7
Parallel shock				-0.25%	-1.70
TOTAL WEIGHTED VALUE (TWV)					-1.82
INTEREST MARGIN (IM)					209.3
RISK INDEX (TWV/IM)					-0.87%

The Parent Company's Risk Management Function monitors this type of risk through a regulatory framework that considers the actual breakdown of assets between fixed and floating rates implicit in the Group's core activities (interest for consideration and late payment interest).



## Section 14

### Exposure to securitization positions (Art. 449 CRR)

#### INFORMATION ON THE TRANSACTION WITH THE VEHICLE BFF SPV S.R.L.

##### Qualitative information

###### Strategies, processes and objectives

The private placement of a securitization transaction was carried out in July 2017 and renewed in December 2018 for €150 million - the maximum amount of the flexible senior note - with the aim of diversifying funding activities.

###### Transaction details

The receivables, due from Local Healthcare Entities and Hospitals, are sold without recourse to a special purpose vehicle pursuant to Law 130/99, BFF SPV, which finances the purchase of the receivables by issuing securities up to a total of €150 million.

The securitization structure provides for a revolving period during which sales of 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 and originally valid through January 15, 2019, was renewed in December 2018: as a result, the revolving phase outstanding at December 31, 2018 is to end on February 17, 2020. On February 6, 2020, the revolving phase was once again renewed and therefore it is to end on February 15, 2021.

It should be noted that in January 2021 the activities necessary for the closure of the transaction were carried out. On February 15, 2021, the senior note was repaid and the program was unwound. The closure activities and the striking off from the register of companies of the vehicle are expected to be completed by the end of the first half of 2021.

###### 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 over-collateral ratio (at December 31, 2020 equal to 138.00% of the amount of the securities issued) and a subordinated loan by Banca Farmafactoring.

The transaction, concluded in February 2021, called for, at the end of the revolving period, an amortization period of up to one year related to the receivables collection performance, until full repayment of securities. Furthermore, through the exercise of a put option, the vehicle had the option of transferring 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 was included in the credit risk. At December 31, 2020, Banca Farmafactoring did not hold any financial instruments issued by the vehicle as part of the transaction and, as collection agent, handles receivable recovery and collection activities on behalf of the servicer Zenith Service S.p.A.

## Quantitative information

### Type of financial instruments held

At December 31, 2020 Banca Farmafactoring did not hold any financial instruments connected with the above-mentioned transaction.

### Sub-servicer activity

Banca Farmafactoring, in its capacity as collection agent, handled 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 total nominal amount of the outstanding receivables was €89.9 million at December 31, 2020.

### Banking group - Exposures resulting from the main “in-house” securitization transactions broken down by type of securitized asset and by type of exposure

(Values in thousand euros)

Type of securitization/ Exposures	On-balance sheet exposures			Guarantees issued			Credit facilities		
	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior	Senior	Mezzanine	Junior
	Book value  Value adjustments/write-backs	Book value  Value adjustments/write-backs	Book value  Value adjustments/write-backs	Net exposure  Value adjustments/write-backs	Net exposure  Value adjustments/write-backs	Net exposure  Value adjustments/write-backs	Net exposure  Value adjustments/write-backs	Net exposure  Value adjustments/write-backs	Net exposure  Value adjustments/write-backs
A. Fully derecognized									
B. Partially derecognized									
C. Not derecognized	62,967	(18)							
C.1 BFF SPV I									
- Factoring	62,967	(18)							

## Section 15

### Remuneration policy (Art. 450 CRR)

#### Qualitative disclosure

##### Definition of the Remuneration policy

The remuneration and incentive policies of the Banca Farmafactoring Banking Group approved by the Shareholders' Meeting on April 2, 2020 were defined with the ultimate goal of developing remuneration systems, in the interests of stakeholders, aligned with long-term business values, strategies and objectives, linked to the proper company results to take into account the risks assumed by the Group and, in particular, with the levels of capital and liquidity required for the activities undertaken, so as to avoid skewed incentives that could result in regulatory breaches or excessive risk assumption for the Group.

In defining its remuneration and incentive policies, the Bank relied on the support of the *Gattai, Minoli, Agostinelli, Partners* Law Firm.

In this document, the definitions set forth in the remuneration and incentive policies approved by the Shareholders' Meeting on April 2, 2020 and available on the Bank's website shall apply.

With reference to the process of defining the remuneration policy, please take note of the following:

##### i) **The Shareholders' Meeting**

Aside from the responsibilities laid out by law, the Banca Farmafactoring Bylaws, with reference to remuneration policies, establish that the Ordinary Shareholders' Meeting:

- ▶ determines the amount of compensation to be paid to the Directors, the Statutory Auditors and the Independent Auditors responsible for auditing the accounts;
- ▶ approves the Policy;
- ▶ approves any securities-based remuneration plans;
- ▶ approves the criteria for determining the compensation to be granted in the event of early termination of the employment relationship or of the office, including the limits imposed on said compensation in terms of the annual Fixed Remuneration and the maximum amount deriving from their application;
- ▶ views, at least once a year, a disclosure on the remuneration and incentive policies adopted by the Bank, and on their implementation in the manner defined by the Remuneration Supervisory Provisions. This disclosure contains the same information regarding remuneration and incentive systems and practices provided to the public, in compliance with the provisions of the Remuneration Supervisory Provisions.
- ▶ approves raising the ceiling of the Variable Remuneration to Fixed Remuneration ratio from 1:1 to 2:1 for Risk Takers. This capacity was implemented by way of the Shareholders' Meeting resolution of December 5, 2016, approving the Board of Directors' proposal to raise the ceiling of the Variable Remuneration to Fixed Remuneration ratio from 1:1 to a maximum of 2:1, with the exception of Personnel belonging to the Company Control Functions.

The above-mentioned shareholders' resolution was adopted:

- a) in compliance with the qualified majorities provided for by the Remuneration Supervisory Provisions<sup>15</sup>;
- b) following prior notification to the Supervisory Authority provided for by the regulations referred to in the Remuneration Supervisory Provisions<sup>16</sup>.

ii) **the Board of Directors:**

- prepares the Policy, submits it to the Shareholders' Meeting, reviews it at least once a year and is responsible for its implementation, ensuring that it is adequately documented and accessible to Personnel;
- approves, in line with the Policy, the remuneration and incentive systems for the BoD's Personnel. In particular, it approves the entire remuneration package of the CEO, including any allocation of stock options to said officer;
- is entrusted with the administration of Stock Option Plan by, among other things:
- determines the maximum number of stock options to be allocated overall to beneficiaries in relation to each tranche;
- identifies the beneficiaries of each tranche from among the BoD's Personnel;
- ensures that the remuneration and incentive systems are consistent with the Bank's overall choices in terms of risk-taking, strategies, long-term objectives, corporate governance structure and internal controls.

iii) **the Remuneration Committee;**

The Remuneration Committee makes suggestions and recommendations to the Board of Directors regarding Personnel remuneration and incentive policies. The Committee, consisting of three non-executive members of the Board of Directors, two of whom are independent, is responsible for proposing the salaries for personnel whose pay and bonuses are decided by the Board of Directors, and provides advice on determining the criteria for the compensation of all Key Personnel.

The Remuneration Committee met 10 times in 2020. The main activities carried out concerned:

- Reporting of 2019 performance results relating to the roles of Chief Executive Officer, Senior Executives, Executives reporting directly to the Chief Executive Officer, and Heads of the Group's Control Functions for the definition of the MBOs for which they are responsible;
- Definition of the 2020 quantitative targets relating to the roles of the Chief Executive Officer, Senior Executives, Executives reporting directly to the Chief Executive Officer and the Heads of the Group's Control Functions;
- Definition of the Report;
- Analysis and approval of remuneration packages for the hiring of new and Senior Executives;
- Update of the remuneration and incentive policy for the members of the strategic supervision, management and control bodies and the staff of the Banca Farnafactoring Banking Group;
- Identification of the beneficiaries of stock options in the categories for which the Board of Directors is responsible;

iv) **the Control and Risks Committee:**

One of the functions of the Risks Committee is to ensure that the incentives underlying the Group's remuneration system are consistent with the RAF.

At least once a year, the Human Resources and Organizational Development Function, based on an analysis

15 The Remuneration Supervisory Provisions provide that Shareholders' Meeting approval requires the favourable vote of at least two thirds of the share capital represented at the meeting, when it is constituted with at least half of the share capital, or, when this does not happen, the favourable vote of at least three quarters of the share capital represented, whatever that may be.

16 The procedure provides for the transmission to the Bank of Italy or the European Central Bank, at least 60 days before the date on which the shareholders' vote is scheduled, of the proposal to be submitted to the Shareholders' Meeting, with the relative indications and evidence to demonstrate that the higher limit or limits, for the most important personnel or for some categories of them, do not affect compliance with prudential regulations, especially those concerning own-funds requirements.

of the labour market, organizational developments or strategic guidelines of the Group, verifies the need to review the remuneration and incentive policies. The Human Resources and Organizational Development Function also checks the incentive system, in terms of instruments, methods, operating mechanisms and parameters adopted by the Group, in order to implement the provisions of the Policy.

The Parent Company adopts the Policy containing the remuneration policies for the entire Group through the following process, which takes place at least once a year.

- The Human Resources and Organizational Development Function prepares a draft of the Policy involving the competent functions, including the General Counsel Function, the Risk Management Function, the Planning and Control OU and the Compliance and AML Function.
- ii. The Human Resources and Organizational Development Function submits the draft update of the Policy to the Chief Executive Officer.
- The Chief Executive Officer submits the Policy to the Board of Directors for its approval, together with the specific opinion of the Compliance and AML Function.
- The Board of Directors, after consulting with the Remuneration Committee and the Control and Risks Committee, resolves to approve the Policy and submit it for approval by the Shareholders' Meeting.
- The Shareholders' Meeting resolves on the adoption of the Policy.

### Identification of “Key Personnel”

The Policy is based on a system of classification of company roles consistent with the definition of Key Personnel established by the Group. In particular, the Group identifies the Key Personnel through an annual assessment process - entrusted to the Human Resources and Organizational Development Function in collaboration with the Rules and Processes O.U. and with the Risk Management Function – carried out on the basis of the qualitative and quantitative criteria provided for in Regulation (EU) No. 607/14, the Group's internal regulations, company procedures, job descriptions and individual powers of attorney. Therefore, taking into account the levels of autonomy between the different roles and their impact on the business, the Board of Directors identifies the Key Personnel by way of a specific resolution after evaluation by the Human Resources and Organizational Development Function with the support of the Risk Management and Compliance and AML Functions, having consulted with the Remuneration Committee.

In addition, whenever the Bank establishes a new employment relationship and/or partnership, the Human Resources and Organizational Development Function carries out an assessment to check whether the person or entity in question belongs to the Key Personnel category.

### Remuneration components

Through adequate remuneration and incentive mechanisms, the BFF Group intends to favour business competitiveness, in compliance with the principle of sound and prudent management, and strengthen corporate governance, guaranteeing that decisions are taken in an independent, informed and prompt manner, at the appropriate level, so as to avoid conflicts of interest and guarantee proper reporting according to the provisions of the competent authorities.

In summary, the remuneration policies adopted by the Group in 2020 are as follows:

#### *All Directors:*

- i. receive the compensation set by the Shareholders' Meeting, a reimbursement of costs incurred during the performance of their duties and, where applicable, compensation for any roles held in Board committees;
- ii. who are Committee chairs or members may receive additional compensation determined by the Board of Directors pursuant to Article 2389, paragraph 3 of the Italian Civil Code;
- iii. have a civil liability insurance policy, the cost of which is paid by the Bank.

Except in the case of the Chief Executive Officer (and any executive directors), Directors are never entitled to Variable Remuneration.

**The Chairman of the Board of Directors** receives a Fixed Remuneration established by the Board of Directors in accordance with Article 2389, paragraph 3 of the Italian Civil Code determined ex ante and consistent with the role assigned.

**The Chief Executive Officer** receives:

- i. a Fixed Remuneration, consisting of a salary established by the Board of Directors pursuant to Article 2389, paragraph 3, and a Benefits package.
- ii. a Variable Remuneration, subject to the general principles<sup>17</sup> described in the Policy, which includes:
- iii. an MBO whose maximum opportunity is equal to 100% of the Fixed Remuneration (excluding Benefits), linked to the achievement of the Target EBTDA RA and conditional upon the:
  - a) exceeding the gates linked to the liquidity, equity and profitability indicators provided for in i., ii. and iii of sub-point (C) of paragraph 10.2.3.1 (Verification of the achievement of company objectives), as well as to the
  - b) achievement of an EBTDA RA/Target EBTDA RA ratio of at least 1:1, unless otherwise decided by the Board of Directors in compliance with the criteria and conditions set out to allow the disbursement of the MBO of Senior Executives, Executives and other Bank managers, as provided for in i. of point (D) of paragraph 10.2.3.1 (Application of multipliers);
- iv. stock options that may be assigned by the Board of Directors pursuant to the stock option plans in force;
- v. a retention bonus<sup>18</sup>;
- vi. a golden parachute potentially payable to the CEO upon termination of office, with a value equal to the highest of:
  - a) 1.8 times the sum of the Fixed Remuneration (excluding Benefits) and the target MBO<sup>19</sup>;
  - b) the amount of €2,301,000.00.
- vii. a non-compete agreement

Different and/or additional forms of Fixed Remuneration and Variable Remuneration may be provided upon the occurrence of certain requirements, which are periodically assessed, partly on the basis of the extent of the powers awarded. Any additional forms of Fixed Remuneration and Variable Remuneration may be awarded within the limits of applicable laws and regulations, and the provisions of the Policy.

<sup>17</sup> In particular, the CEO is subject to the general principles relating to:

- (i) the Variable Remuneration to Fixed Remuneration ratio referred to in point 10.2.2 (Variable Remuneration to Fixed Remuneration ratio);
- (ii) Variable Remuneration disbursement methods (i.e. deferral period, balance between cash and securities, retention period, rules for "particularly high" Variable Remuneration) referred to in point 10.2.2.1 (Variable Remuneration disbursement methods);
- (iii) ex-post correction mechanisms (*Malus* and *Clawback*) referred to in point 10.2.2.2 (*Ex-post* correction mechanisms (*Malus* and *Clawback*));
- (iv) the procedure for activating the *Malus* and *Clawback* mechanisms referred to in point 10.2.2.3 (Procedure for activating the *Malus* and *Clawback* mechanisms).

The CEO is not required to still be employed by the Bank and/or its Subsidiaries, to not have submitted their notice to leave and to not have pending disciplinary proceedings, since there is no salaried employment contract between the CEO and the Bank.

<sup>18</sup> On January 14, 2020 the event linked to the activation of the retention bonus set forth in the contract in force with the CEO took place, i.e., the reduction of the stake held by BFF Luxembourg S.à.r.l in the Bank to less than 25% of the Bank's share capital. As a result of this event, the CEO became entitled to receive from the Company a total amount of €2,301,000 (3 times the fixed remuneration), subject to the applicable rules on variable remuneration described in this Policy. For the purposes of calculating the ratio of Fixed Remuneration to Variable Remuneration, the amount of the retention bonus was allocated pro-rata for each year of the stability period and therefore from the year in which the retention bonus was agreed (2017) until the event occurred. The up-front portion of €1,610,700 was paid on February 27, 2020 with regard, respectively, to the cash part and the part in financial instruments, the acceptance of which was disclosed to the market in compliance with the regulations on internal dealing pursuant to Art. 19 of Reg. (EU) No. 596/2014 (MAR).

<sup>19</sup> "Target MBO" means the minimum value other than zero attributable to the Chief Executive Officer as MBO in the relevant year.

The following apply to the above-mentioned variable component:

- ▶ the limits established in Circular No. 285 in terms of the ratio between the fixed component and the variable component and the balance between cash and financial instruments;
- ▶ the malus and clawback mechanisms.

#### *Statutory Auditors:*

The Statutory Auditors:

- ▶ receive remuneration established by the Shareholders' Meeting;
- ▶ do not receive any variable remuneration component or pay linked to the results of the Bank or the Group;
- ▶ have a "civil liability" insurance policy, the cost of which is paid by the Bank.
- ▶ Furthermore, the Chairman of the Board of Statutory Auditors receives an additional compensation established by the Shareholders' Meeting.

#### *Supervisory Body:*

The members of the Supervisory Body who are not Employees receive a Fixed Remuneration established by the Board of Directors, on the basis of market conditions and the responsibilities assumed, to guarantee the independence and autonomy of the function and the diligent performance of the role.

For the members of the Supervisory Body who are also Group Employees, however, there is no compensation for the position.

Members of the Supervisory Body cannot receive a variable remuneration linked to Group results in any case.

#### *Remaining employees:*

The remuneration is established, depending on the case, by the Board of Directors (with reference to Senior Executives, Executives reporting directly to the CEO and the Heads of the Control Functions), the CEO or his or her delegates, in compliance with the *Group remuneration and incentive policy* and applicable contractual regulations (particularly on the basis of the collective labour agreement for middle management and for professional area employees of credit, financial and instrumental companies, and the collective labour agreement for executive employees of credit, financial and instrumental companies, and the analogous collective labour agreements abroad).

### **Fixed Remuneration**

Fixed Remuneration is related to the experience and professional skills of the people working in the company, and is also based on the roles held.

Fixed Remuneration includes the Benefits. Each Group company is allowed to establish its own Benefit packages, in compliance with local regulations, based on the importance and complexity of the roles held, according to principles of fairness and alignment with the local labour market, and, in any case, in compliance with the Group's guidelines as per the principles of the Policy.

The fixed remuneration component is calculated based on some principles that are consistent with the Code of Ethics adopted and can be summarized as follows:

- fairness, understood as the attribution or recognition of what is due to the individual in question, in terms of professional growth, based on possession of the required characteristics, roles and responsibilities, without any discrimination, giving everyone the same career opportunities;
- competitiveness, understood as an analysis of how the salary awarded to each position compares to specific market benchmarks;
- meritocracy, which is expressed in how individuals are valued based on merit;
- consistency over time, with reference to medium- and long-term objectives and risk management policies.

## Variable Remuneration

### *General principles*

The recognition of Variable Remuneration and the correlation between risk and performance is achieved through a process that aims to remunerate Personnel in compliance with the risk profile defined by the Risk Appetite Framework (RAF), and with a view to business continuity and sustainability of long-term results.

In particular, Variable Remuneration is paid subject to the following conditions: (i) liquidity coverage ratio (LCR), (ii) total capital ratio, at least equal to the level of "risk tolerance" approved by the Board of Directors, and defined within the RAF in force at the end of the year to which the incentive system refers, and (iii) risk-adjusted and cost-of-capital-adjusted positive return (Risk-Adjusted EBTDA, or EBTDA RA).

Variable Remuneration is also linked to several parameters consistent with the function of the specific instrument used to pay the Variable Remuneration (e.g. individual and/or Bank performance, however measured, length of service, etc.). No forms of guaranteed Variable Remuneration are permitted except in exceptional cases, for the hiring of new Personnel and limited to the first year of employment or office (e.g. entry bonus). These forms of guaranteed Variable Remuneration:

- i. may not be paid more than once to the same person;
- ii. are not subject to the rules on the structure of Variable Remuneration (i.e. rules on balancing cash and securities, deferral and retention);
- iii. contribute to determining the limit of the ratio of Fixed Remuneration to Variable Remuneration for the first year, unless they are paid in a lump sum at the time of recruitment.

The payment of Variable Remuneration, whether upfront or deferred, with the exception of the golden parachutes, is subject

- i. for Employees, as at the payment date, to being employed by the Bank and/or its Subsidiaries, not having submitted notice to leave and not pending disciplinary proceedings that might conclude with dismissal;
- ii. for Personnel, to compliance with parameters pertaining to results, assets and liabilities and cash flows.

Regarding the requirement to still be employed by the Bank and/or its Subsidiaries, there may be exceptional and properly justified exemptions (so-called good leaver provisions), in which, although said condition is no longer met, the Variable Remuneration in question may be paid in whole, in part or *pro rata temporis* depending on when during the year the relationship with the Bank and/or the Subsidiaries is terminated. These exemptions must be approved by the CEO, except in relation to Personnel for whom the Board of Directors is responsible, when Board approval is required.

In this regard, with a view to avoiding possible regulatory and Policy circumvention, the Bank ensures that Group Personnel are not remunerated and do not receive payments or other benefits through vehicles, instruments or methods that are in any way circumventive, including with regard to Subsidiaries. In this regard, the Bank may ask the Group's Risk Takers to disclose any opening of custody and administration accounts with other intermediaries, and any financial transactions or investments made, which could affect the Group's risk alignment mechanisms.

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

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

The MBO is a formalized incentive system that provides for the payment of an annual bonus based on annual gross remuneration, subject to company and individual qualitative and quantitative objectives being achieved. The mix of quantitative and qualitative objectives is appropriately balanced according to the roles and responsibilities of the eligible personnel.

Within the first quarter of each year, according to the guidelines provided by the CEO, and through a process aimed at full alignment and wider sharing, all heads of Organizational Units/Functions/Departments communicate to their employees their respective qualitative/quantitative objectives, on the basis of which, at the end of the year, individual performance will be evaluated and the associated MBO variable remuneration component will be determined. With regard to Senior Executives and Executives reporting directly to the Chief Executive Officer, the MBO objectives are discussed with the CEO and then submitted for approval by the Board



of Directors, in compliance with the provisions of the regulations and this Policy, also with reference to the heads of the Company Control Functions. For other employees, the MBO objectives are determined by the Chief Executive Officer.

As regards the determination of the MBO, there is an initial phase during which, based on the achievement of individual objectives, the base amount of the bonus is determined; subsequently, to confirm whether the MBO can actually be paid out, the gates are checked: financial, equity, liquidity and positive profitability, adjusted for risk and the cost of capital (Risk Adjusted EBTDA or RA EBTDA).

Once the 3 gates have been respected, the MBO of the Bank's Employees is then also calculated on the basis of two different multiplier mechanisms.

The first multiplier is the RA EBITDA / Target RA EBITDA. This multiplier can increase the MBO by up to 40% for middle managers, Senior Executives, Executives and other senior managers of the Bank, and up to 30% for non-managerial staff. This multiplier can also be decremental and still allow the MBO to be paid out to the middle manager and non-managerial categories, even if the Target RA EBTDA has not been reached.

The objective and multiplier related to the RA EBTDA / Target RA EBTDA ratio do not apply to:

- a. Company Control Functions;
- b. the CFO;
- c. Human Resources and Organizational Development.

A second multiplier is linked to Customer Satisfaction. This business performance indicator is formulated on the basis of a survey conducted by the Commercial O.U., and can increase the MBO by up to 9%. This indicator applies as a multiplier only incrementally.

When the profitability gates are checked, the incremental costs deriving from the application of these mechanisms are deducted from the results achieved to always ensure full self-financing of the MBO incentive system. In any event, the final amount of the MBO may always be paid out in compliance with the restrictions and limits laid out in the Policy.

As specifically concerns Senior Executives and Executives reporting directly to the CEO and the Heads of the Parent Company's Company Control Functions, the objectives assigned and the relative assessment are subject to the approval of the Board of Directors, which relies on the support and contribution of the Remuneration Committee and the Risk Management Function to check the achievement of targets and gates relating to the possibility to pay out the MBO in compliance with the RAF.

The MBO provides for a focus on annual objectives and retention mechanisms (e.g. payment subject to the beneficiary still being employed or holding office).

With respect to the annual objectives, 3 gates are applied in the vesting year, linked to the achievement of the financial objective budgeted for the same year adjusted for risk, as provided for in the Risk Appetite Framework, associated with compliance with capital and liquidity limits:

1. the Group's liquidity indicator adopted as the gate is the Liquidity Coverage Ratio (LCR), at least equal to the level of "risk tolerance" approved by the Board of Directors, and defined within the RAF in force on the closing date of the financial year to which the MBO refers, and, in any case, compliant with the requirements of supervisory remuneration legislation;
2. the Group's equity indicator adopted as a gate is the Total Capital Ratio at least equal to the level of risk tolerance approved by the Board of Directors, and defined within the RAF in force on the closing date of the financial year to which the MBO refers, and, in any case, compliant with the requirements of supervisory remuneration legislation;
3. the Group's profitability indicator adopted as a gate is a positive RA EBTDA, indicating EBTDA adjusted according to a correction mechanism that takes into account the risks assumed by the Group, consistent with the capital targets established in the Risk Appetite Framework (RAF) defined on the basis of the approved budget/strategic plan at the beginning of the reference year according to the following formula:  $EBTDA^{RA} = EBTDA - (RWA^M * Target\ TCR * Ke)$ .

Where:

**EBTDA:** pre-tax profit from continuing operations (Item 290) excluding net value adjustments to property, plant and equipment (Item 210), net value adjustments to intangible assets (Item 220) and income statement items that are offset by corresponding changes in shareholders' equity (e.g. foreign exchange losses and costs related to the Stock Option Plan);

**RWA<sup>M</sup>:** average in the year of the total, final and Group risk-weighted assets determined with respect to the average of the month-end RWAs, calculated by the Planning, Administration and Control Department on the basis of the monthly accounting closures and through the replication of the mandatory prudential accounting activities for quarterly supervisory reports;

**Target TCR:** in the absence of eligible Tier 2 subordinate debt, this consists of the risk appetite threshold defined for the Total Capital Ratio in the RAF. If there is eligible Tier 2 debt, the Target TCR value to be applied in the formula is equal to the difference between 15% and the weighting of Tier 2 on the Group's Target TCR);

**Ke:** the Group's cost of equity, set at 10%.

Additional gates relating to the profitability of the individual companies may be provided for the Subsidiaries. To guarantee long-term sustainability, for Risk Takers and certain parties covering management positions and/or positions with significant professional requirements, any MBO accrued may be paid out as follows:

- ▶ 70% after approval of the financial statements by the Shareholders' Meeting;
- ▶ 30% with a deferral of two years<sup>20</sup> from maturity. For example, for the year ending on December 31, 2020, the deferred MBO is subject to an additional gate, consisting of achievement in the year prior to the period of payment (which will take place in 2022), i.e. in the year ending on December 31, 2021, of positive profitability net of risk, associated with respect for the minimum regulatory capital and liquidity limits;
- ▶ for employees in particular, presence in the Group is typically required at the time of payment along with service seniority of at least 6 months in the reference year;

### Company bonus

For Parent Company employees subject to the credit collective labour agreement applicable in Italy, with the exception of executives, a company bonus ("VAP") may be provided on the basis of the national collective labour agreement applied, which provides a financial recognition when specific Bank performance targets are achieved.

The company bonus may be provided in cash or through corporate welfare goods and services on the basis of relevant agreements.

### Stock Option Plan

As part of its incentive policies, the Bank, in compliance with applicable legislation, adopts stock option plans based on the allocation of options that entitle the beneficiary to receive ordinary shares of the Bank.

<sup>20</sup> Considering that the Bank is classified, for the purpose of remuneration policy rules, as an Intermediate Bank, it would be possible to apply a deferral period of between one-and-a-half and two years. The Bank considered adopting a more conservative approach by implementing a longer deferral period than required by the Remuneration Supervisory Provisions for Intermediate Banks.

These plans aim to:

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

The value of the options attributed to beneficiaries:

- a) is determined on the basis of fair market value using common valuation methodologies and parameters recognized by the financial community (the valuation is performed using the Black-Scholes formula), as proposed by the Risk Management Function and approved by the Board of Directors;
- b) constitutes Variable Remuneration on a par with the MBO, with which it contributes to determining the 2:1 limits and the 50/50 split (between cash and Securities), where applicable, in the year of stock option vesting. Stock options are also subject to ex-post adjustment mechanisms (Malus and Clawback), which can result in the stock options being reduced, significantly reduced or even eliminated. Specifically, during the exercise right accrual period for stock options, certain "gates" linked, respectively, to the achievement of a positive Group return net of risk and compliance with capital and liquidity risk tolerance levels are applied, pertaining to the year prior to the date on which it becomes possible to exercise the options.

### Other components

There are additional components of Variable Remuneration beyond the MBO bonuses, within the limits of the Policy and regulations in force over time, including Sales Bonuses.

Sales Bonuses provide compensation for the achievement of annual company and individual qualitative and quantitative objectives, which are intended to support the achievement of the Bank's commercial, results and asset-based objectives, taking into account customers' needs and in line with their risk profile.

### Golden parachutes

The golden parachutes are approved by the Board of Directors for Personnel for whom the BoD is responsible, and by the Chief Executive Officer for the rest of the Personnel. The following are golden parachutes<sup>21</sup>:

- i. the amounts recognized under a non-competition agreement;
- ii. the amounts recognized under an agreement for the settlement of an existing or potential dispute relating (or with a view) to termination of the employment relationship or office, regardless of the location in which it is reached;
- iii. the indemnity for failure to give notice, in excess of the amount established by law.

With the exception of the agreement entered into with the CEO, there are no other golden parachutes within BFF Banking Group.

### Discretionary pension benefits

To date, there are no discretionary pension benefits for Personnel. However, the Group companies, subject to the approval of the Board of Directors for the Personnel for whom the BoD is responsible, and the Chief Executive Officer for the rest of the Personnel, have the right to grant discretionary pension benefits, as defined and provided for in the Remuneration Supervisory Provisions. In this case, when applying the provisions on Variable Remuneration to discretionary pension benefits, the following criteria are observed<sup>22</sup>:

- i. if the member of Personnel terminates their employment, partnership or office before they have accrued the pension right, the discretionary pension benefits are invested in Securities, held in custody by the Bank

21. Note 16, of the Supervisory Provisions on Remuneration, Section III specifies that, for the purposes of the same, "golden parachutes" are not only the golden parachutes commonly intended (i.e. amounts recognized under an agreement for the settlement of a current or potential dispute, whatever the forum in which it is achieved) but also the payments under non-competition clauses and the indemnity of non-notice to the extent that this may exceed the amount established by law.

22. See Section III of the Remuneration Supervisory Provisions.

- for a period of five years, during which they accrue interest and/or dividends, and are subject to *ex-post* adjustment mechanisms in accordance with point 10.2.1.3 (*Ex-post* adjustment mechanisms – Malus and Clawback);
- ii. if the employment, partnership or office ceases after the pension entitlement has accrued, the discretionary pension benefits are granted to the employee in the form of Securities and subject to a retention period of five years, during which the Securities accrue interest and/or dividends;
- iii. discretionary pension benefits are included in the calculation of the Variable Remuneration to Fixed Remuneration 2:1 ratio limit.

### *Early termination of the relationship*

The course of action to be taken in the event of the employment relationship being terminated is the one indicated by the relevant industry contracts. The Parent Company's Board of Directors may determine golden parachutes for Key Personnel in the event of early termination of employment or departure from office, in compliance with the conditions provided for by applicable regulations and the criteria approved by the Shareholders' Meeting. To determine these fees, qualitative and quantitative indicators are applied which reflect the performance achieved and the risks assumed by the individual and the Bank, and *ex post* correction mechanisms (*Malus* and *Claw Back*), within the limits allowed by collective agreements applicable to the employment relationship, as provided for in the Supervisory Provisions for Banks and, in any case, in compliance with the limits and requirements of the relevant legislation.

### *Non-compete agreements*

If the employee signs a "non-compete agreement" which requires him or her not to professionally engage with specific companies for a specific period of time starting from the date of termination of the employment relationship, the applicable Group company will pay him or her a sum to be determined based on the gross annual fixed remuneration received in the last year.

The non-compete agreement fee is subject to *ex post* correction mechanisms (*Malus* and *Claw Back*), within the limits allowed by collective agreements applicable to the employment relationship, as provided for in regulatory provisions and, in any case, in compliance with the limits and requirements of the relevant legislation.

The payment for the non-competition agreement is made after the termination of the relationship. For Risk Takers, this fee is included in the calculation of the Variable Remuneration to Fixed Remuneration ratio limit.

The portion of the total consideration of the agreement that exceeds the last annual Fixed Remuneration (excluding Benefits) is subject to the additional limits provided for Variable Remuneration, namely:

- i. quantification based on performance indicators measured net of risks, determined by the achievement of a positive risk-adjusted Group return, associated with compliance with the target equity (TCR) and liquidity (LCR) limits, defined in the RAF, in force at the end of the year preceding the payment of the deferred Variable Remuneration;
- ii. balance between cash and Securities;
- iii. upfront and deferred.

### *Ex-post adjustment mechanisms (Malus and Clawback)*

Variable Remuneration, including golden parachutes, is subject to *ex-post* adjustment mechanisms (*Malus* and *Clawback*), which can result in the Variable Remuneration being reduced, significantly reduced or even eliminated. The correction mechanisms must be identified within the limits allowed by law and by collective agreements applicable to employment relationships. They must reflect performance levels net of the risks actually assumed or achieved and capital levels, as well as take into account individual conduct. Using the company functions pursuant to paragraph 10.2.2.3 (Procedure for activating the *Malus* or *Clawback* mechanisms), the Parent Company's Board of Directors ascertains the assumptions that determine the activation of the *ex-post* correction mechanisms with reference to the Personnel for whom the BoD is responsible, and resolves to apply them in accordance with the procedures provided for in the Policy. For the remaining Personnel, the CEO is responsible, relying on the support of the competent corporate functions and, where necessary, the corporate bodies of the Subsidiaries.

For the purposes of recognising deferred Variable Remuneration, given all other legal and contractual conditions, the application of a certain "gate" linked to the Group achieving a positive return net of risk, associated with compliance with the equity (TCR) and liquidity (LCR) risk tolerance levels as defined in the RAF in force at the end of the year preceding the settlement of the deferred Variable Remuneration (the "**Malus**" condition), is envisaged during the period of accrual of the right to payment.

The variable part of remuneration is not paid or, if already paid, must be returned in the presence of individual behaviour of the person concerned, enacted within the scope of the Bank's activity or in any case of the professional activity of the person in question, that is attributable to one or more of the following (the "**Clawback**" conditions):

- i. behaviours resulting in a significant loss for the Group, the Bank, the Subsidiaries or customers; in this regard, it is specified that the Parent Company's Board of Directors determined by resolution of March 2, 2015 a minimum threshold of €1 million for this loss corresponding to the "medium" risk indicated in the "Group Risk Management Policy";
- ii. the loss of one or more of the requirements of professionalism, integrity and independence referred to in Article 26 of the TUB for members of Personnel performing administrative, management and control functions;
- iii. breach of the obligations provided for in Article 53, paragraph 4 et seq. of the TUB by the parties indicated therein, regarding the Group's assumption of risk activities vis-à-vis those who may directly or indirectly influence the management of the Bank or the Group and parties connected to them, as well as in situations of conflict of interest and/or in violation of the conditions and limits identified by the Bank of Italy pursuant to the aforementioned Article 53 of the TUB;
- iv. violation of the obligations and provisions of the Remuneration Supervisory Provisions (Section III, e.g. undue receipt of remuneration, violation of the retention period);
- v. specific behaviours committed with wilful misconduct or gross negligence, which have resulted in financial or non-financial damage, including reputational damage, to the Group, the Bank or Group companies, regardless of whether such damage is fully quantifiable, including, but not limited to:
  - a) breach of confidentiality and non-competition obligations during the contractual relationship with the Bank;
  - b) breach of any post-contractual confidentiality and non-compete obligations, such as non-competition agreements that may or may not be pursuant to Article 2125 of the Italian Civil Code;
- vi. violation, with wilful misconduct or gross negligence, of the obligations under Legislative Decree 231/2001 or the Code of Ethics;
- vii. fraudulent conduct or other conduct committed with wilful misconduct or gross negligence to the detriment of the Group, the Bank, customers or Group companies.

If a Clawback condition occurs, in the less serious cases the Board of Directors may determine a proportional reduction, rather than the full elimination, of the Variable Remuneration concerned, provided such a decision is justified. The amount may be offset against Remuneration and/or severance pay.

The Malus and Clawback mechanisms are triggered when the Bank uses the procedure indicated in paragraph 10.2.1.4 (*Procedure for activating the Malus and Clawback mechanisms*) to determine that Malus and Clawback should apply.

In addition to compensation for any damages, from the moment the Clawback conditions are ascertained, the Group companies have the right to recover all or part of the Variable Remuneration already paid, this right being exercisable within five years of each payment.

Furthermore, the termination of the employment relationship and/or the office does not prevent the activation of Clawback mechanisms, which still take into account the legal, social security and tax aspects, as well as the time limits provided for by local regulations.

With reference to stock option plans, if the Internal Audit function, at the request of the Board of Directors for the Personnel for whom the BoD is responsible, and the Chief Executive Officer for the remaining Personnel, ascertains one or more Malus conditions before the vesting date, the beneficiary loses all options allotted and not yet matured. Options accrued and not yet exercised are subject to Clawback if the related conditions are ascertained by the Internal Audit Function after the vesting date and before the exercise of the accrued options.

If a Clawback condition is ascertained after the exercise of the options, within the limits of applicable rules, the beneficiary will be required to pay the Bank an amount equal to the value of the options as determined at the time of allocation, without prejudice to the Bank's right to compensation for any greater damage.

## Quantitative information

The data laid out below relate to remuneration paid in the course of 2020 by the Group, including both the fixed and variable components, referring to the various categories of recipients.

Line of Business	No. recipients (a) (b)	Fixed Remuneration (c) €k	Variable Remuneration accrued in 2020 €k	Of which Deferred part (Cash + Financial instruments) €k	Deferred part recognized in 2020 €k
Executive Directors or Directors with specific delegations (d) (*)	1	949	1,256	377	1,611
Chairman of the body with the strategic supervision functions (d)	1	245	-	-	-
Other non-executive directors (e)	7	334	-	-	-
Statutory Auditors	3	215	-	-	-
Heads of the main Line and Staff structures	25	3,407	1,033	310	5
Heads of the Control Functions	3	477	148	44	17
<b>TOTAL</b>	<b>40</b>	<b>5,627</b>	<b>2,437</b>	<b>731</b>	<b>1,633</b>

(a) Those who have multiple offices are counted only once

(b) Chairman of the body with the strategic supervision functions

(c) Includes benefits

(d) Fixed remuneration also includes directors' fees

(e) The Chairman and CEO of BFF are not counted as their remuneration as Directors is included in the Fixed remuneration; 2 non-executive directors have waived their remuneration and therefore they were not included.

(\*) On January 14, 2020 the event linked to the activation of the retention bonus set forth in the contract in force with the CEO took place, i.e., the reduction of the stake held by BFF Luxembourg S.à.r.l in the Bank to less than 25% of the Bank's share capital. As a result of this event, the CEO became entitled to receive from the Company a total amount of €2,301,000 (3 times the fixed remuneration), subject to the applicable rules on variable remuneration described in this Policy. For the purposes of calculating the ratio of Fixed Remuneration to Variable Remuneration, the amount of the retention bonus was allocated pro-rata for each year of the stability period and therefore from the year in which the retention bonus was agreed (2017) until the event occurred. The up-front portion of €1,610,700 was paid on February 27, 2020 with regard, respectively, to the cash part and the part in financial instruments, the acceptance of which was disclosed to the market in compliance with the regulations on internal dealing pursuant to Art. 19 of Reg. (EU) No. 596/2014 (MAR).

The "Report on Remuneration" includes all information required by Article 450 of the CRR concerning remuneration policies and practices, relating to the categories of personnel whose professional activity has a significant impact on the bank's risk profile.

## Section 16

### Leverage (Art. 451 CRR)

#### Qualitative disclosure

The Leverage ratio - introduced by Bank of Italy Circulars No. 285 "*Supervisory provisions for banks*" and No. 286 "*Instructions for the preparation of supervisory reporting by banks and securities intermediaries*", both dated December 17, 2013, which adopted Regulation (EU) No. 575/2013 (CRR - Capital Requirement Regulation) as amended, relating to the new harmonized regulations for banks and investment companies, became an integral part of the Disclosure that Institutions are required to provide pursuant to Article 451 of the CRR.

The European Implementing Regulation No. 200/2016 defined the implementing technical standards of Article 451, making it applicable as of January 1, 2015 and providing the relative specifications.

#### Description of the processes used to manage the risk of over-leverage

As set forth in Delegated Regulation No. 62/2015, the Group determines the Leverage ratio at the end of each quarter at consolidated level. It is calculated as the ratio between Tier 1 Capital and a denominator based on non-risk-weighted assets. Exposures must be represented net of the regulatory adjustments established for the calculation of Tier 1 Capital in order to avoid counting those assets twice.

The risk of over-leverage is treated consistent with the approaches adopted in the RAF, by evaluating on a current and forward-looking basis the values of the indicator, included in the set of indicators based on which the Group determines its capitalization policy correlated with the asset growth level.

#### Description of the factors impacting the leverage ratio during the period to which the published leverage ratio refers

The positive change in the leverage ratio at December 31, 2020 compared to December 31, 2019, which went from 5.765% to 8.221%, is the result of changes in Tier 1 and unweighted assets.

With regard to Tier 1, the increase in the CRR Group's own funds at December 31, 2020 was affected by the various sales of BFF Luxembourg S.à r.l. (Centerbridge) in 2020, which brought the stake held by BFF Luxembourg S.à r.l. in the Group in BFF from 32.78% on December 31, 2019 to 7.95% at the end of 2020 with a resulting increase in the contribution of minority interests, and by the inclusion in Own Funds of profits for 2019 and 2020 for €168.7 million.

With reference to unweighted assets, there was a positive change of 652 million due primarily to the increase in the government bond portfolio linked to agreements relating to the acquisition of DEPObank.

## Quantitative disclosure

### Summary reconciliation of accounting assets and leverage ratio exposures

(Values in thousand euros)

		Applicable amount
1	Total assets as per published financial statements	6,428,412.63
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	- 1,103.43
3	(Adjustment for fiduciary assets recognized on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (SFTs)	602
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	78,358.90
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	- 54,828.58
8	<b>Leverage ratio total exposure measure</b>	<b>6,451,441.12</b>

### Leverage ratio common disclosure

(Values in thousand euros)

		CRR leverage ratio exposures
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6,427,309
2	(Asset amounts deducted in determining Tier 1 capital)	(54,829)
3	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>6,372,481</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	

(CONT'D)



(Values in thousand euros)

**CRR leverage ratio exposures**

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	<b>Total derivatives exposures (sum of lines 4 to 10)</b>	<b>0</b>
<b>SFT exposures</b>		
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	602
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	
15	Agent transaction exposures	
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>602</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	216,880
18	(Adjustments for conversion to credit equivalent amounts)	(138,521)
19	Other off-balance sheet exposures (sum of lines 17 and 18)	78,359
<b>Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)</b>		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
<b>Capital and total exposure measure</b>		
20	Tier 1 capital	530,392
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	6,451,441
<b>Leverage ratio</b>		
22	<b>Leverage ratio</b>	<b>8.221%</b>
<b>Choice on transitional arrangements and amount of derecognized fiduciary items</b>		
EU-23	Choice on transitional arrangements for the definition of the capital measure	
EU-24	Amount of derecognized fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	

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

(Values in thousand euros)

		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	6,372,481
EU-2	Trading book exposures	
EU-3	Banking book exposures, of which:	6,372,481
EU-4	covered bonds	
EU-5	Exposures treated as sovereigns	2,495,134
EU-6	Exposures to regional governments, MDB, international organizations and PSE not treated as sovereigns	2,958,627
EU-7	Institutions	377,923
EU-8	Secured by mortgages of immovable properties	
EU-9	Retail exposures	38,211
EU-10	Corporate	354,405
EU-11	Exposures in default	124,629
EU-12	Other exposures (eg equity, securitizations, and other non-credit obligation assets)	23,551

## Section 17

### Use of credit risk mitigation techniques (Art. 453 CRR)

BFF Banking Group has a Credit Risk Mitigation framework. The goal of the framework is in the first place to guarantee a better process for the management of the collateral held by the Group to mitigate the risk positions assumed, and in the second place to evaluate the possible effects and benefits in terms of capital requirements. The exposure to this type of risk is broken down into two main evaluation and oversight areas:

- ▶ Verification of the enforceability and effectiveness of collateral in terms of recovery of the problematic exposure, which requires an analysis of the main characteristics of the attenuation and control tools, with reference primarily to the collateral acquisition and administrative management process, according to what is set forth in the internal regulations of the Group and the individual Group companies in that regard;
- ▶ Measurement of exposure to risk for which credit risk mitigation techniques are found to be less effective or may not have the expected benefit in terms of reducing RWAs; this measurement is performed by the Risk Management Function as part of the ICAAP.

Therefore, on December 31, 2020, the Group had not adopted risk mitigation techniques entailing benefits in terms of the capital requirements.

## Section 18

### NPE Disclosure (EBA Guidelines)

#### Template 1: Credit quality of forborne exposures

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures
	Performing forborne	Non-performing forborne		Of which impaired	On performing forborne exposures	On non-performing forborne exposures	Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
			Of which defaulted				
Loans and advances	2,450,801	1,940,833	1,940,833	1,940,833	-61,071	-970,263	
Central banks							
General governments							
Credit institutions							
Other financial corporations							
Non-financial corporations	2,450,801	1,940,833	1,940,833	1,940,833	-61,071	-970,263	
Households							
Debt Securities							
Loan commitments given							
<b>Total</b>	<b>2,450,801</b>	<b>1,940,833</b>	<b>1,940,833</b>	<b>1,940,833</b>	<b>-61,071</b>	<b>-970,263</b>	

Exposures classified as forborne at December 31, 2020 relate entirely to BFF Polska S.A. and its subsidiaries and can basically be associated with 5 counterparties (93% of total gross forborne exposure). With respect to December 31, 2019, the amount decreased significantly primarily due to the departure from the category of 3 performing forborne positions for around €19 million.

## Template 3: Credit quality of performing and non-performing exposures by past due days

(Values in thousand euros)

Gross carrying amount/nominal amount												
Performing exposures				Non-performing exposures								
		Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
Loans and advances	3,961,157	2,446,062	1,515,095	140,935	16,130	2,470	1,111	6,160	85,608	28,013	1,444	140,935
Central banks												
General governments	3,583,914	2,102,358	1,481,556	104,531	1,612	2,292	627	4,196	67,979	27,502	324	104,531
Credit institutions	14,832	14,832										
Other financial corporations	139,557	139,557										
Non-financial corporations	192,370	176,764	15,605	34,818	14,509	178	484	1,961	17,040	509	136	34,818
Of which SMEs	38,724	37,002	1,722	12,207	3,227	147	480	1,961	5,781	476	136	12,207
Households	30,485	12,551	17,934	1,586	9	0	0	3	589	2	984	1,586
Debt securities	1,682,250	1,682,250										
Central banks												
General governments	1,682,250	1,682,250										
Credit institutions												
Other financial corporations												
Non-financial corporations												
Off-balance-sheet exposures	217,405			1,316								1,316
Central banks	0											
General governments	82,119											
Credit institutions	5,200											
Other financial corporations	1,026											
Non-financial corporations	129,060			1,316								1,316
Households												
Total	5,860,812	4,128,312	1,515,095	142,250	16,130	2,470	1,111	6,160	85,608	28,013	1,444	1,456,811

See Section 7 for details on the classification of exposures. With reference to past due exposures, these refer primarily to public counterparties and the classification under non-performing exposures does not signify in and of itself an actual increase in the degree of risk.

## Template 4: Performing and non-performing exposures and related provisions

(Values in thousand euros)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	3,961,157	3,767,873	193,284	140,935	-	140,935	-3,508	-2,768	-740	-16,305	-	-16,305	-	1,937	153
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	3,583,914	3,417,480	166,433	104,531	-	104,531	-812	-748	-64	-535	-	-535	-	1,832	-
Credit institutions	14,832	14,832	-	-	-	-	-5	-5	-	-	-	-	-	-	-
Other financial corporations	139,557	139,557	-	-	-	-	-47	-47	-	-	-	-	-	-	-
Non-financial corporations	192,370	168,838	23,532	34,818	-	34,818	-2,214	-1,584	-630	-14,640	-	-14,640	-	105	153
Of which SMEs	38,724	33,703	5,021	12,207	-	12,207	-513	-370	-143	-6,242	-	-6,242	-	3	-
Households	30,485	27,165	3,320	1,586	-	1,586	-430	-384	-46	-1,131	-	-1,131	-	-	-
Debt securities	1,682,250	1,682,250	-	-	-	-	-200	-200	-	-	-	-	-	0	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	1,682,250	1,682,250	-	-	-	-	-200	-200	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-
Non-financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet exposures	216,379	216,379	-	1,316	-	1,316	-527	-523	-	-4	-	-4	-	1,026	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	82,119	82,119	-	-	-	-	-1	-1	-	-	-	-	-	-	-
Credit institutions	5,200	5,200	-	-	-	-	-0	-0	-	-	-	-	-	-	-
Other financial corporations			-	-	-	-	-	-	-	-	-	-	-	1,026	-
Non-financial corporations	129,060	129,060	-	1,316	-	1,316	-526	-522	-	-4	-	-4	-	-	-
Households	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	5,859,786	5,667,528	193,284	142,250	-	142,250	-4,235	-3,491	-740	-16,310	-	-16,310	-	2,963	153

With respect to the values at December 31, 2019, there was an increase of around €21 million in gross NPEs (increase of around €16 million for public counterparties and roughly €5 million for private counterparties). This increase is accompanied by an increase of €2.5 million in value adjustments.

With respect to stage 2 exposures, there was an increase of around €36 million (increase of around €49 million for public counterparties and decrease of roughly €13 million for private counterparties).

## Section 19

### Disclosure on exposures subject to measures applied in light of the COVID-19 crisis

With its notice of June 30, 2020, the Bank of Italy enacted the European Banking Authority (EBA) Guidelines of June 2, 2020 "Guidelines on reporting and disclosure of exposures subject to measures applied in response to the Covid-19 crisis" (EBA/GL/2020/07) relating to reporting public disclosure requirements on exposures subject to the measures applied in light of the COVID-19 crisis.

In compliance with the above-mentioned provisions, quantitative and qualitative information at December 31, 2020 is provided below with respect to:

- ▶ Loans subject to "moratoria" falling within the scope of application of the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02)<sup>23</sup>;
- ▶ - new loans backed by the state or another public entity (not applicable).

---

<sup>23</sup> EBA/GL/2020/02 "Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis" of April 2, 2020. These guidelines intend to provide clarity on the treatment of legislative and non-legislative moratoria and clarify the implications that these moratoria have on payments within prudential regulations, also in relation to the application of rules on forbearance measures and the definition of impaired loans.  
The Bank of Italy declared to the EBA its intention to comply with such Guidelines.

## Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

		Gross carrying amount							
		Performing				Non-performing			
			Of which: grace period of capital and interest	Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit- impaired (Stage 2)		Of which: grace period of capital and interest	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due ≤ 90 days
Loans and advances subject to EBA-compliant moratoria	2,963,732	2,923,130	2,923,130			40,603	40,603		
of which: Households									
of which: Collateralized by residential immovable property									
of which: Non-financial corporations	2,963,732	2,923,130	2,923,130			40,603	40,603		
of which: Small and medium-sized enterprises									
of which: Collateralized by commercial immovable property									

		Accumulated impairment, accumulated negative changes in fair value due to credit risk							
		Performing				Non-performing			
			Of which: grace period of capital and interest	Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit- impaired (Stage 2)		Of which: grace period of capital and interest	Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due ≤ 90 days
Loans and advances subject to EBA-compliant moratoria	-95,832	-86,288	-86,288			-9,543	-9,543		
of which: Households									
of which: Collateralized by residential immovable property									
of which: Non-financial corporations	-95,832	-86,288	-86,288			-9,543	-9,543		
of which: Small and medium-sized enterprises									
of which: Collateralized by commercial immovable property									



## Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

	Number of obligors		Gross carrying amount			Residual maturity of moratoria					
						<= 3 months	> 3 months	> 6 months	> 9 months	> 12 months	> 18 months
	Of which: granted		Of which: granted			<= 6 months	<= 6 months	<= 9 months	<= 12 months	<= 18 months	
			Of which: legislative moratoria	Of which: subject to extended moratoria	Of which: expired						
EBA-compliant moratoria loans and advances	182	182	2,963,732	2,963,732		149,112	38,444	9,008	685	999,174	1,767,309
of which: Households											
of which: Collateralized by residential immovable property											
of which: Non-financial corporations			2,963,732			149,112	38,444	9,008	685	999,174	1,767,309
of which: Small and medium-sized enterprises											
of which: Collateralized by commercial immovable property											

## Certification by the financial reporting officer

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

Carlo Zanni  
Financial Reporting Officer