# PRESS RELEASE

# BFF BANKING GROUP

The Board of Directors of BFF approved today the 1Q18 consolidated accounts of BFF Banking Group.

**Highlights:**

- **Adjusted Net Income of €20.3m in 1Q18** (€19.8m reported) **for c. 32% RoTE**
- Strong growth in business activity with **loans up by 14% y/y and new business volumes up 12% y/y**
- Increasing geographic diversification: **32% of costumer loans outside Italy** (27% as of March 2017)
- **Total Capital Ratio of 17.8%** and **Common Equity Tier I Ratio**[1] **of 12.9%, excluding €20m of net income of the period**
- Low risk profile: **net NPLs/net loans at 0.7%** and **Cost of Risk annualized of 13bps**
- **Marginally positive impact from the first-time adoption of the IFRS 9** accounting principle

*Milan, 09 May 2018* – The Board of Directors of **BFF Banking Group (BFF)** approved today the 1Q18 consolidated accounts.

In 1Q18 the group reported a net income of €19.8m, compared to €34.2m in 1Q17 which included €12.4m of net positive extraordinary items and record collection of late payment interests.

1Q18 Adjusted Net Income reached €20.3m, after having expensed €0.8m of Tier II costs and additional €0.9m on Polish SME factoring portfolio in run off, and with €15m of cashed-in LPI, compared to €21.8m adjusted net income in 1Q17 with €33m of cashed-in LPI.

As a result of the lower LPI cashed-in, the net over-recovery of LPI accounted in P&L, net of the re-scheduling impact[2], decreased from €5.9m in 1Q17 to €2.5m in 1Q18 and the stock of unrecognized LPI off balance increased to €354m, +3% vs 1Q17. The recovery rate of LPI was higher in 1Q18 compared to 1Q17.

[1] Calculated on the Banking Group perimeter (pursuant to TUB – Testo Unico Bancario).

[2] For receivables not collected within the expected maximum collection date, interest income is reduced by the amount of yield required to keep the IRR of the portfolio constant until the new expected collection date. In particular, the value of the credit on the balance sheet is re-calculated using the new expected cash-flow schedule and the negative delta in value is booked in P&L to maintain the original IRR ("re-scheduling impact").

Customer loans at the end of March 2018 amount to €2,878m, +14% compared to €2,531m at the end of March 2017. Volume of new business is up 12% y/y to €927m, driven mainly by Italy and Spain. At the end of March 2018, the international markets (Spain, Portugal, Poland, Slovakia, Czech Republic and Greece) accounted for 32% of loans (27% at the end of March 2017).

The Total Capital Ratio was 17.8% at the end of March 2018, above the company's 15% target, and the CET1 ratio was 12.9% confirming the Group's solid capital position and ability to fund growth and strong dividend payouts. These ratios are in fact calculated excluding the €20m of net income of the period, which would have increased both ratios by 100bps.

Costs have been kept under control with a cost/income of 35% despite investments to establish a branch in Portugal and the freedom of service operations covering Greece and Croatia.

The Group continues to enjoy a low risk profile, with net non performing Loans at 0.7% of net customer loans and a cost of risk annualized of 13bps (entirely related to BFF Polska's SME factoring business placed in run-off). In 1Q17 annualized cost of risk was 10bps.

"*We continue to see double digit growth in our loan book and volumes of client activity, despite the low interest rate environment and healthy public finances. We expect the investments we are making in the new markets to contribute to sustain such growth. Profitability, ability to fund dividends and deploy capital for growth remain strong even in comparison with a record 1Q2017*"- commented **Massimiliano Belingheri, CEO of BFF.**

**Key consolidated accounts items**

***Adjusted profitability***

1Q18 adjusted P&L numbers exclude the following items[3]:

- €1.0m post tax (€1.3m pre tax) costs related to the accounting of the stock option plan: this item generates a positive equity reserve, with therefore no impact on Group equity;
- €0.5m after tax (€0.7m pre tax) positive impact in P/L from the change in €/PLN exchange rate on the acquisition loan for the purchase of BFF Polska (previously Magellan), which is more than counterbalanced by a positive change in equity reserve, related to the higher value in euro of the purchase price of BFF Polska, reflecting the natural hedging between these two balance sheet items.

[3] 2018 Exchange rate for Poland and Czech respectively PLN/€ 4,1792 and PLN/CZK 0,165 for P&L data (1Q 2018 average), PLN/€ 4,2106 and PLN/CZK 0,166 for Balance Sheet data (29th March 2018); 2017 Exchange rate for Poland and Czech respectively PLN/€ 4,3206 and PLN/CZK 0,160 for P&L data (1Q 2017 average), PLN/€ 4,2265 and PLN/CZK 0,156 for Balance Sheet data (31st March 2017).

1Q17 adjusted P&L numbers excluded the following items[3]:

- €17.8m post tax (€25.2m pre tax) one-off income related to the change in LPI estimated recovery rate from 40% to 45%;
- €1.7m post tax (€2.4m pre tax) extraordinary costs related to the IPO. All IPO costs are now fully expensed;
- €1.1m post tax (€1.5m pre tax) extraordinary costs related to stock option plan (also related to the IPO); this item generates a positive equity reserve, with therefore no impact on Group equity;
- €2.6m after tax (€3.8m pre tax) negative impact in P/L from the change in €/PLN exchange rate on the acquisition loan for the purchase of BFF Polska.

***Main balance sheet data***

**Customer loans** at the end of March 2018 amount to €2,878m (of which €619m related to BFF Polska), compared to €2,531m at the end of March 2017 (of which €489m related to BFF Polska), and up by 14% y/y. Geographic diversification continued thanks to a strong growth across all geographies outside Italy and the entry into the Greek market in September 2017. International markets (Spain, Portugal, Poland, Czech Republic, Slovakia and Greece) account for 32% of loans. The costumer loans in Italy are up +6% y/y. The residual amount of net costumer loans at the end of March 2018 related to the Polish SME factoring business placed in run-off is equal to €4m (down from €6m at the end of December 2017).

The Group saw strong business activity in the period, with overall **new business volumes** of €927m (of which €101m related to BFF Polska), representing a 12% growth compared to 1Q17 (€830m including €141m of BFF Polska). The growth was mainly driven by Italy (+11% y/y), Spain (+37% y/y) and Portugal (+344% y/y). The total volumes for BFF Polska in 1Q18 of €101m, versus a strong 1Q17, is mainly due to a different expected seasonality in 2018.

The Group **total available funding** amounts to €3,096m at the end of March 2018. Online deposits represent 41% of drawn funds, up by +14% y/y to €959m, despite strong reduction in offered yields. The Group has ample excess liquidity with undrawn funding available at the end of March 2018 equal to c. €0.8bn.

The Government bond portfolio decreased to €1,100m at the end of March 2018, compared to €2,232m at the end of March 2017 (-51% y/y) and €1,222m at the end of December 2017.

The Group maintains a very healthy liquidity position, with a Liquidity Coverage Ratio (LCR) of 179.7% at the end of March 2018. The leverage ratio, at the same date, is equal to 6.2%.

***Main profit and loss data***

**Adjusted net banking income** reached €44.0m in 1Q18 compared to €45.9m in 1Q17 and **Adjusted net interest income** amounts to €42.2m in 1Q18, €45.0m in 1Q17, both driven by lower cashed-in LPI for €18m. In particular, cashed-in LPI were €15m in 1Q18 and €33m in 1Q17, with higher recovery rate in 1Q18. As a result of the lower cashed-in LPI, the net over-recovery[4] accounted in P&L in 1Q18 was €3.4m lower than in 1Q17 (€2.5m of net over-recovery in 1Q18 vs. €5.9m in 1Q17). Adjusted net interest income 1Q18 includes in its interest expenses the €0.9m of Tier II costs for the first 2 months not present in 1Q17.

**Adjusted interest income**[4] of €53.4m in 1Q18 compared to €54.8m, driven mainly by lower net over-recovery accounted in P&L for €3.4m. At the end of March 2018, the **unrecognized off-balance sheet LPI fund** reached €354m, +3% higher than the stock at the end of March 2017. The total LPI fund amounts to €543m.

**Net interest margin on customer loans** was 5.3% vs. 7.0% in 1Q17, mainly due to lower interest income and the deferral effect related to the over recovery on LPI. Gross yield on customer loans 1Q18 was 7.0%.

The average **cost of funding in 1Q18** shows a reduction compared to the same period of last year: the combined figure including BFF Polska decreased from 2.04% in 1Q17 to 1.95% in 1Q18, which includes the Tier II bond cost for the entire period (only 1 months in 1Q17). The interest expenses increased from €9.8m to €11.3m in 1Q18, mainly due to: i. the impact of Tier II (€1.4m in 1Q18, €0.5m in 1Q17), ii. the one-off commission cost for €0.3m on the refinancing (at lower rate) of part of BFF Polska acquisition financing, iii. the increase of drawn funding and iv. the increase in Zloty funding (+26% yoy) which has a higher base rate (Wibor 3M 1.70% vs. Euribor 3M -0.33% as of 31 March 2018). Rates offered on 12-month online deposits in Italy were cut in March and then again in May 2018 to 0.30% with the benefit expected to unfold once the deposits are reinvested at lower rates.

The operational structure remains efficient with an ***adjusted* cost/income ratio** of 35% compared to 34% in 1Q17. In 1Q18 **adjusted operating costs** were €15.3m, versus €15.6m in 1Q17, despite the employees at Group level increased from 404 at the end of March 2017 (of which 177 in BFF Polska) to 419 at the end of March 2018 (of which 175 for BFF Polska). Resolution Fund accrued on a pro-rata basis in 1Q 2018, versus fully expensed in 1Q 2017 as the 2018 amount has yet to be confirmed. The Group already recruited most of the personnel required for establishment of Portuguese branch and for the Greek and Croatian operations in freedom of service. Some of the

[4] For receivables not collected within the expected maximum collection date, interest income is reduced by the amount of yield required to keep the IRR of the portfolio constant until the new expected collection rate. In particular, the value of the credit on the balance sheet is re-calculated using the new expected cash-flow schedule and the negative delta in value is booked in P&L to maintain the original IRR ("re-scheduling impact").

processes of BFF Italy, that were outsourced to Italian suppliers, are being brought in house in Poland, with net savings to be achieved in 2019.

**Loan loss provisions** reached €1.0m in 1Q18, versus €0.7m in 1Q17, and include €1.2m of provision on the Polish SME factoring business placed in run-off. The cost of risk annualized was 13bps in 1Q18 and 10bps in 1Q17. The first-time adoption of the IFRS 9 accounting principle have a marginal positive one-off impact thanks to the public sector exposure and short term duration of the loan book.

Reported net income 1Q18 was €19.8m compared to €34.2m for the same period of last year which include €12.4m of extraordinary net positive items and record of LPI cashed-in. **1Q18 Adjusted Net Income amounts to €20.3m**, versus €21.8m for 1Q17 despite €18m of lower cashed-in LPI. The 1Q18 Adjusted Net Income includes (all value post tax):

- €0.8m of Tier II cost for the first 2 months (not present in 1Q17)
- €0.9m of additional provision related to BFF Polska's SME business placed in run-off at the end of 2017

The RoTE for 1Q18 based on the **Adjusted Net Income** of €20.3m is equal to 32%.

No earnings for the period have been set aside for capital and therefore the dividend capacity as of March 2018 is equal to €20m or €0.12 per share.

***Capital ratios***

The Group maintains a solid capital position with a 12.9% **CET1 ratio** (vs. SREP requirement of 7.175%) and a 17.8% **Total Capital ratio** (vs. SREP requirement of 11.75%) calculated on the Banking Group perimeter (pursuant to TUB – Testo Unico Bancario)[5]. These ratios include the impact of the reduction in the rating of the Italian Republic to BBB (high) by the rating agency DBRS – the Group ECAI – on January 13, 2017. One Italian rating upgrade would move the risk weighting on the Italian exposure to NHS and other PA (different from local and central government) from 100% to 50% with a positive 2.9% increase on CET1 ratio and 4.0% on Total Capital ratio.

The above capital ratios do not include the €20m of net income of the period. Including the net income of the period both ratios would increase by 100bps.

The RWA density[6] decrease from 71% as of March 2017 to 69% as of March 2018, thanks to a better loan mix. The Group uses the Basel Standard Model.

***Asset quality***

**Superior asset quality is confirmed** with a net non-performing loan / net loan ratio of

[5] Considering the CRR Group perimeter, including the parent company BFF Luxembourg, the CET1 Ratio is 11.8% and the Total Capital ratio 16.3%. These ratios are subject to approval by BFF Luxembourg S.àr.l.
[6] Calculated as RWA / customer loans.

0.7% at end of March 2018, versus the 0.6% at end of December 2017 and 0.5% at end of March 2017. The net NPLs of €19.7m includes €15.2m related to Italian municipalities in *dissesto* (o/w €3.0m already in *dissesto* at the time of purchase), where the group expects at the end of the process to recover capital and interests. Net past due, equal to €86.7m (€45.1m in March 2017), are for 78% due to Public Administration and public sector companies. Total impaired loans (non-performing, unlikely to pay, past due) – net of provisions – amounted to €116.3m (€94.7m at year end 2017, and €62.5m at March 2017).

**Significant events after the end of 1Q18**

The General Shareholders' Meeting of Banca Farmafactoring S.p.A. held on 5 April 2018, appointed the new Board of Director and the new Board of Board of Statutory Auditors. At the same meeting, the shareholders appointed Salvatore Messina as the Chairman of the Board of Directors.

At the Board meeting held after the conclusion of the Ordinary Shareholders' Meeting, the Directors of Banca Farmafactoring appointed Luigi Sbrozzi as Vice President and Massimiliano Belingheri as Chief Executive Officer.

The General Shareholders' Meeting also resolved upon the payment of a dividend of EUR 0.492, gross of withholding tax, on each of the 170,107,400 ordinary shares, for a total amount of EUR 83,692,841, with payment taking place from 11 April 2018.

As disclosed on 6 April 2018, BFF Luxembourg S.àr.l. ("BFF Lux") has entered into certain individual agreements respectively with the CEO of Banca Farmafactoring S.p.A. Massimiliano Belingheri and with other six managers of the Company, according to which they have undertaken not to dispose for a maximum period of three years, a significant portion of their ordinary shares currently held in BFF (the "Lock-up").

The Lock-up shall be early terminated, in the event that the shareholding held by BFF Lux in BFF should fall below the 20% of the Company's share capital.

As consideration for the assumption of the Lock-up undertakings, BFF Lux granted to the above shareholders an option right to acquire ordinary shares held by BFF Lux itself in the Company. Such purchase option may be exercised upon the occurrence of certain specific events and, in any case, by the expiration of the three years Lock-up period.

**Statement of the Manager responsible for preparing the company's financial reports**

The manager responsible for preparing the company's financial reports, Carlo Zanni, declares, pursuant to paragraph 2 of Article 154 bis of the Consolidated Law on Finance, that the accounting information contained in this press release corresponds to the document results, books and accounting records of the Company.

## **Consolidated Balance Sheet** *(Values in €)*

| Assets | 31.12.2017 | 31.03.2018 |
|---|---|---|
| Cash and cash equivalents | 80,932,835 | 11,949,872 |
| Financial assets measured at fair value through profit or loss | 545,846 | 38,712 |
| a) financial assets held for trading | - | - |
| b) financial assets designated at fair value | - | - |
| c) other financial assets mandatorily measured at fair value | 545,846 | 38,712 |
| Financial assets measured at fair value through OCI | 101,449,267 | 152,615,346 |
| Financial assets measured at amortized cost | 4,183,888,076 | 3,851,114,698 |
| a) Due from banks | 44,792,419 | 25,314,679 |
| b) Due from customers | 4,139,095,657 | 3,825,800,019 |
| Hedging instruments | 321,839 | - |
| Equity investments | 260,893 | 290,932 |
| Property, plant and equipment | 12,794,887 | 12,672,322 |
| Intangible assets of which: | 26,034,157 | 25,651,821 |
| - goodwill | 22,146,189 | 22,146,189 |
| Tax assets | 30,917,074 | 31,076,674 |
| a) current | 25,883,920 | 25,035,312 |
| b) deferred | 5,033,154 | 6,041,362 |
| Other assets | 9,795,958 | 13,103,546 |
| **Total Assets** | **4,446,940,832** | **4,098,513,922** |

| Liabilities and Equity | 31.12.2017 | 31.03.2018 |
|---|---|---|
| Financial liabilities measured at amortized cost | 3,944,117,768 | 3,536,564,832 |
| a) deposits from banks | 657,992,541 | 530,733,624 |
| b) deposits from customers | 2,495,986,713 | 2,275,044,843 |
| c) securities issued | 790,138,514 | 730,786,365 |
| Financial Liabilities Held for Trading | 535,073 | 117,085 |
| Financial liabilities designated at fair value | 0 | 0 |
| Hedging derivatives | 0 | 0 |
| Tax liabilities | 82,455,762 | 91,160,938 |
| a) current | 25,627,899 | 32,086,315 |
| b) deferred | 56,827,864 | 59,074,623 |
| Other liabilities | 49,683,022 | 79,848,453 |
| Employee severance indemnities | 848,138 | 873,242 |
| Provisions for risks and charges: | 5,445,278 | 5,579,254 |
| a) guarantees provided and commitments | 0 | 217,099 |
| b) pension funds and similar obligations | 4,366,009 | 4,442,867 |
| c) other provisions | 1,079,269 | 919,288 |
| Valuation reserves | 7,693,804 | 7,445,710 |
| Reserves | 129,621,486 | 226,429,240 |
| Share premium | 0 | 0 |
| Share capital | 130,982,698 | 130,982,698 |
| Treasury shares | 0 | -300,000 |
| Minority interests | 10,000 | 10,000 |
| Profit for the year | 95,547,803 | 19,802,468 |
| **Total Liabilities and Equity** | **4,446,940,832** | **4,098,513,922** |

## Consolidated Income Statement *(Values in €)*

| Item | 1Q 2017 | 1Q 2018 |
|---|---|---|
| Interest and similar income | 79,943,831 | 53,417,966 |
| Interest and similar expenses | -9,796,909 | -11,263,651 |
| **Net interest income** | **70,146,923** | **42,154,315** |
| Fee and commission income | 1,775,151 | 1,993,812 |
| Fee and commission expenses | -195,560 | -433,205 |
| **Net fees and commissions** | **1,579,591** | **1,560,607** |
| Dividend income and similar revenue | 25,458 | 0 |
| Gains/losses on trading | -4,106,838 | 730,927 |
| Fair value adjustments in hedge accounting | -290,955 | 110,652 |
| Gains (losses) on disposals/repurchases of: | | |
| a) financial assets measured at amortized cost | 0 | -459 |
| b) financial assets measured at fair value through OCI | 0 | 182,484 |
| **Operating income** | **67,354,179** | **44,738,527** |
| Impairment losses/reversals on: | | |
| *a)* receivables and loans | -662,092 | -958,715 |
| *b)* available-for-sale financial assets | 0 | -7,075 |
| **Net profit from banking activities** | **66,692,087** | **43,772,737** |
| **Net profit from financial and insurance activities** | **66,692,087** | **43,772,737** |
| Administrative expenses: | | |
| *a)* personnel costs | -8,243,990 | -8,700,068 |
| *b)* other administrative expenses | -10,462,018 | -7,117,227 |
| Net provisions for risks and charges: | | |
| a) guarantees provided and commitments | 0 | -47,392 |
| b) pension funds and similar obligations | -304,947 | -305,113 |
| Net adjustments to/writebacks on property, plant and equipment | -364,247 | -335,897 |
| Net adjustments to/writebacks on intangible assets | -440,742 | -465,045 |
| Other operating income/expenses | 935,226 | 491,320 |
| Operating expenses | -18,880,717 | -16,479,421 |
| **Profit before tax from continuing operations** | **47,811,370** | **27,293,316** |
| Income taxes on profit from continuing operations | -13,589,913 | -7,490,848 |
| Profit after tax from continuing operations | 34,221,457 | 19,802,468 |
| **Profit for the year** | **34,221,457** | **19,802,468** |
| **Profit for the year attributable to owners of the Parent Company** | **34,221,457** | **19,802,468** |

# Consolidated Capital Adequacy – Banking Group TUB

| €m | BFF BANKING GROUP - EX TUB | |
|---|---|---|
| | 31.03.2017 | 31.03.2018 |
| Credit and Counterparty Risk | 113.3 | 130.6 |
| Market Risk | 0.0 | 0.0 |
| Operational Risk | 29.8 | 28.0 |
| **Total Capital Requirements** | **143.1** | **158.6** |
| **Risk Weighted Assets (RWA)** | **1,788.3** | **1,982.7** |
| | | |
| **CET I** | **253.0** | **255.2** |
| **Tier I** | **0.0** | **0.0** |
| **Tier II** | **98.2** | **98.2** |
| **Own Funds** | **351.2** | **353.4** |
| | | |
| ***CET 1 Capital Ratio*** | ***14.1%*** | ***12.9%*** |
| ***Tier I Capital ratio*** | ***14.1%*** | ***12.9%*** |
| ***Total Capital Ratio*** | ***19.6%*** | ***17.8%*** |

## Asset quality reported data

| | 31.03.2018 | | |
|---|---|---|---|
| €'000 | **Gross** | **Provision** | **Net** |
| Non performing - total | 40,957 | -21,266 | 19,691 |
| Unlikely to pay | 13,483 | -3,580 | 9,904 |
| Past due | 87,145 | -410 | 86,735 |
| **Total** | **141,585** | **-25,256** | **116,329** |

| | 31.12.2017 | | |
|---|---|---|---|
| €'000 | **Gross** | **Provision** | **Net** |
| Non performing - total | 39,587 | -21,412 | 18,175 |
| Unlikely to pay | 10,370 | -3,610 | 6,760 |
| Past due | 69,935 | -140 | 69,794 |
| **Total** | **119,892** | **-25,162** | **94,730** |

| | 31.03.2017 | | |
|---|---|---|---|
| €'000 | **Gross** | **Provision** | **Net** |
| Non performing - total | 31,902 | -19,104 | 12,798 |
| Unlikely to pay | 5,584 | -1,013 | 4,571 |
| Past due | 45,153 | -60 | 45,093 |
| **Total** | **82,640** | **-20,177** | **62,463** |

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**BFF Banking Group**

BFF Banking Group is the leading player in Europe in the management and nonrecourse factoring of receivables towards the Public Administrations, listed in the Milan Stock exchange. BFF Banking Group operates in Italy, Poland, Czech Republic, Slovakia, Spain, Portugal and Greece. In 2017 the Group's consolidated adjusted net profit was Euro 84 million and the CET1 ratio for the Banking Group at the end of March 2018 was 12.9%.

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