PRESS RELEASE

BFF BANKING GROUP

The Board of Directors of BFF approved today the 1H18 consolidated financial statements of BFF Banking Group.

Highlights:

- **Adjusted Net Income of €39.9m in 1H18** (+5% y/y) **for c. 32% Adjusted RoTE**
- **Adjusted Net Interest Income +7% and stock of unrecognized off balance sheet LPI at €358m (+3% vs 1H17)**
- Strong growth in business activity with **loans up 17% y/y and new business volumes up 24% y/y**
- **32% of costumer loans outside Italy** (27% as of June 2017)
- **Total Capital Ratio of 17.2%** and **Common Equity Tier I Ratio**[1] **of 12.3%,** including mark to market effect on HTC&S portfolio and excluding €41m of net income of the period
- Low risk profile: **net NPLs/net loans at 1.0%** and **Cost of Risk annualized of 21bps**

Milan, 07 August 2018 – The Board of Directors of **BFF Banking Group (BFF)** approved today the 1H18 consolidated financial statements.

In 1H18 the group reported a net income of €41.3m, compared to €50.7m in 1H17, which included €12.6m of net positive extraordinary items and high cash collection of late payment interests ("LPI").

1H18 Adjusted Net Income reached €39.9m, after having expensed costs of €0.8m for the Tier II and €1.0m provision on the Polish SME factoring portfolio in run off, which were not present in 1H2017, and with €20m of lower cashed-in LPI compared to 1H17. 1H17 Adjusted Net Income was €38.1m.

Adjusted Net Interest Income increased by +7% y/y, mainly driven by higher stock of net customer loans. The stock of unrecognized LPI off balance increased to €358m, +3% vs 1H17.

Costs have been kept under control with a cost/income ratio of 38% despite: *i.* the investments to establish a branch in Portugal and the freedom of service operations covering Greece and Croatia, and *ii.* the increase of employees in Poland in order to bring in house some of BFF Italy processes that were outsourced, with net savings to be achieved in 2019.

Customer loans at the end of June 2018 amount to €3,000m, +17% compared to

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

€2,557m at the end of June 2017. Volume of new business is up 24% y/y to €2,059m. At the end of June 2018, the international markets (Spain, Portugal, Poland, Slovakia, Czech Republic and Greece) accounted for 32% of loans (27% at the end of June 2017).

The Total Capital Ratio was 17.2% at the end of June 2018, above the company's 15% target, and the CET1 ratio was 12.3% confirming the Group's solid capital position and ability to organically fund growth and a strong dividend payout. Both ratios are calculated excluding the €41m of net income of the period, which would have increased both ratios by 202bps, and instead include the negative exchange rate and mark to market effect on HTC&S portfolio.

The Group continues to enjoy a low risk profile, with net non performing loans at 1.0% of net customer loans (0.2% net of Italian municipalities in conservatorship – "*comuni in dissesto*") and a cost of risk annualized of 21bps (5bps net of BFF Polska's SME factoring business placed in run-off and Italian municipalities in conservatorship). In 1H17 annualized cost of risk was 15bps (10bps net of the same effects).

In the second quarter of 2018 the Group launched several new business initiatives to strengthen its commercial drive: *i.* a new financial solution in the infrastructures renovation sector with first deal signed with Citelum, *ii.* the first two revolving agreements signed in Greece and *iii.* the Portuguese branch opened in July 2018.

"*We are pleased to report growing earnings, strong capital, ample liquidity and growth in loans and volumes across the business and our geographies. We have kept investing in our operating infrastructure and product range to provide further growth opportunities and an ever more disciplined control of risks*"- commented **Massimiliano Belingheri, CEO of BFF.**

<u>Key consolidated accounts items</u>

<u>*Adjusted profitability*</u>

1H18 adjusted P&L numbers exclude the following items[2]:

- €2.8m after tax (€4.1m pre tax) positive impact in P/L from the change in €/PLN exchange rate on the acquisition loan for BFF Polska (previously Magellan), which is counterbalanced by a negative change in equity reserve (included in the capital ratios), reflecting the natural hedging between these two balance sheet items;
- €0.9m 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

[2] 2018 Exchange rate for Poland and Czech respectively PLN/€ 4,2207 and PLN/CZK 0,166 for P&L data (1H 2018 average), PLN/€ 4,3732 and PLN/CZK 0,168 for Balance Sheet data (29th June 2018); 2017 Exchange rate for Poland and Czech respectively PLN/€ 4,2685 and PLN/CZK 0,159 for P&L data (1H 2017 average), PLN/€ 4,2259 and PLN/CZK 0,161 for Balance Sheet data (30th June 2017).

impact on Group equity;

- €0.5m post tax (€0.7m pre tax) costs related to the extraordinary contribution to the 2016 Resolution Fund.

1H17 adjusted P&L numbers excluded the following items[2]:

- €2.5m after tax (€3.6m pre tax) negative impact in P/L from the change in €/PLN exchange rate on the acquisition loan for the purchase of BFF Polska;
- €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) costs related to stock option plan ; this item generates a positive equity reserve, with therefore no impact on Group equity.

Main balance sheet data

Customer loans at the end of June 2018 amount to €3,000m (of which €647m related to BFF Polska), compared to €2,557m at the end of June 2017 (of which €506m related to BFF Polska), and up by 17% y/y. Customer loans in Spain almost double y/y (from €105m at the end of June 2017 to €205m) and in Italy are up +10% y/y (at €2,045m). International markets (Spain, Portugal, Poland, Czech Republic, Slovakia and Greece) account for 32% of loans. The residual amount of net SME factoring customer loans in run-off is equal to €4m at the end of June 2018 (down from €6m at the end of December 2017).

The Group saw strong business activity in the period, with overall **new business volumes** of €2,059m (of which €279m related to BFF Polska), representing a 24% growth compared to 1H17 (€1,667m including €238m of BFF Polska). The growth was mainly driven by Italy (€1,329m, +15% y/y), Spain with more than double volume compare to 1H17 (€318m, +114% y/y) and Poland (€248m, +19% y/y). Business volumes in Slovakia were stable y/y (€28m) and Greece contributed for €5m. The volumes in Portugal of €65m (-9% y/y) are mainly due to a different seasonality. The Portuguese branch, opened in July in Lisbon, should support new business volumes growth going forward.

In the second quarter, the Group launched several **new business initiatives:**

- A new financial solution in the infrastructures renovation sector. Together with Citelum (an EDF subsidiary) BFF signed the first agreement in Italy to buy receivables due from the PA in relation to the investments for the technological and energy renovation of infrastructures. This innovative solution allows: *i.* the client to deconsolidate the early investments for the infrastructures renovation, and *ii.* BFF to buy the receivables coming from the multi-year

contract of supply and maintenance of the infrastructure;
- In less than 9 months since the first deal BFF signed the first two revolving agreements in Greece in the NHS segment with two multinationals clients;
- The Portuguese branch opened in July in Lisbon with 4 people. The local presence will allow the Bank to boost the growth of the business and to enter into partnership agreements with 3rd party distributors.

The Group **total available funding** amounts to €3,115m at the end of June 2018. Online deposits represent 35% of drawn funds, up by +6% y/y to €899m, despite strong reduction in offered yields. The Group has ample excess liquidity with undrawn funding available at the end of June 2018 equal to c. €0.5bn, down from €0.8bn at the end of June 2017 following the optimization of the wholesale funding lines to decrease funding cost.

The Government bond portfolio (HTC e HTC&S) decreased to €1,123m at the end of June 2018, compared to €1,740m at the end of June 2017 (-35% y/y) and €1,222m at the end of December 2017. The negative mark to market at the end of July 2018 of the HTC&S portfolio was €5.4m after tax (included in the equity), while for the HTC (not included in the equity) was €9.7m after tax.

The Group maintains a very healthy liquidity position, with a Liquidity Coverage Ratio (LCR) of 250.8% at the end of June 2018. The Net Stable Funding Ratio and the leverage ratio, at the same date, are equal to 111.3% and 5.7% respectively[1].

Main profit and loss data

Adjusted net banking income reached €90.5m in 1H18, compared to €84.3m in 1H17, and **Adjusted net interest income** reached €87.0m in 1H18, €81.4m in 1H17, both driven by higher stock of net customer loans. The net over-recovery[3] accounted in P&L was stable y/y (€6.8m in 1H18 vs. €7.1m in 1H17) despite lower LPI cashed-in. In particular, cashed-in LPI were €37m in 1H18 and €57m in 1H17, and the net over-recovery[3] was only €0.3m lower compared to 1H17 due to the combined effect of *i.* higher LPI recovery rate and *ii.* lower rescheduling impact in 1H18 vs. 1H17. Adjusted net interest income 1H18 includes in its interest expenses €1.0m of Tier II costs for the first 2 months of the years, not present in 1H17 since the bond was issued at the end of February 2017.

Adjusted interest income amount to €108.3m in 1H18 compared to €101.5m, driven mainly by higher stock of net customer loans and despite the lower LPI cashed-in.

[3] LPI over-recovery net of the re-scheduling impact. Re-scheduling impact: 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.

At the end of June 2018, the **unrecognized off-balance sheet LPI fund** reached €358m, +3% higher than the stock at the end of June 2017. The total LPI fund amounts to €551m (+5% y/y).

Net interest margin on customer loans was 5.5% vs. 6.0% in 1H17 and the gross yield on customer loans 1H18 was 7.1%.

The average **cost of funding in 1H18** shows a reduction compared to the same period of last year: the combined figure (including BFF Polska) decreased from 2.04% in 1H17 to 1.82% in 1H18, which includes the Tier II bond cost for the entire period (only 4 months in 1H17). The interest expenses increased from €20.1m to €21.4m in 1H18, mainly due to: i. the impact of Tier II (€2.9m in 1H18, €1.9m in 1H17), 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 due to the growth of the loan portfolio and iv. the increase in Zloty funding (+77% yoy) which has a higher base rate (Wibor 3M 1.70% vs. Euribor 3M -0.321% as of 29th June 2018). Rates offered on new 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 rate offered on new 12-month online deposits in Spain is equal to 0.75%. Deposits have grown YoY despite the reduction in offered rates.

The operational structure remains efficient with an ***adjusted* cost/income ratio** of 38% compared to 37% in 1H17. In 1H18 **adjusted operating costs** were €34.0m, versus €31.1m in 1H17, up +9% y/y. Personnel cost increased by +10% y/y and driven by higher employee base, and the Ordinary Resolution Fund and FITD expensed in 1H18 was €2.2m in total (€1.5m in 1H17). Other operating expenses were flat y/y. The employees at Group level increased from 407 at the end of June 2017 (of which 178 in BFF Polska) to 441 at the end of June 2018 (of which 192 for BFF Polska). The Group has already recruited the personnel required for establishment of Portuguese branch and for the Greek and Croatian operations in freedom of service. Some of the processes of BFF Italy, that were outsourced to Italian suppliers, are being brought in house in Poland with 13 employees as of 30th June 2018, with net savings to be achieved in 2019.

Loan loss provisions reached €3.2m in 1H18, versus €1.9m in 1H17, and include €1.2m of provision on the Polish SME factoring business placed in run-off and €1.3m of provision on Italian municipalities in conservatorship ("*dissesto*"). The exposure to the Italian municipalities in conservatorship are classified as NPLs by Bank of Italy's regulation[4] despite BFF being legally entitled to receive 100% of the capital and LPI at the end of the process. The cost of risk annualized was 21bps (5bps excluding 8bps related to the Polish SME factoring and 9bps related to the Italian municipalities in conservatorship) in 1H18 and 15bps in 1H17 (10bps excluding the Italian municipalities

[4] Circolare n. 272 del 30 luglio 2008 – 10° aggiornamento.

in conservatorship). The first-time adoption of the IFRS 9 accounting principle has a marginal positive one-off impact thanks to the public sector exposure and short term duration of the loan book.

Reported net income 1H18 was €41.3m compared to €50.7m for the same period of last year which include €12.6m of extraordinary net positive items. **1H18 Adjusted Net Income amounts to €39.9m**, +5% versus 1H17 despite €20m of lower cashed-in LPI. The 1H18 Adjusted Net Income includes (all values post tax):

- €0.8m of Tier II cost for the first 2 months (not present in 1H17 since issued at the end of February 2017)
- €1.0m of provision related to BFF Polska's SME business placed in run-off at the end of 2017

The RoTE for 1H18 based on the **Adjusted Net Income** of €39.9m is equal to 32%.

No earnings for the period have been set aside for capital and therefore the dividend capacity as of June 2018 is equal to €41m or €0.24 per share.

<u>Capital ratios</u>

The Group maintains a solid capital position with a 12.3% **CET1 ratio** (vs. SREP requirement of 7.175%) and a 17.2% **Total Capital ratio** (vs. SREP requirement of 11.375% and a group target of 15%) 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 notch 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 2.6% increase on CET1 ratio and 3.6% on Total Capital ratio. On the other side, in order to have a negative impact on the risk weighting factor for the Italian public exposure to NHS and other PA, the Italian rating needs to be downgraded by 9 notches.

The above capital ratios do not include the €41m of net income of the period (equal to 202 bps of additional CET1 and total capital) available for dividend distribution, and are net of the negative exchange rate and mark to market impact (respectively -21bps and -27bps).

The RWA density[6] decrease from 72% as of June 2017 to 67% as of June 2018, thanks to a better loan mix, and despite the increase in past due and non performing loans. The Group uses the Basel Standard Model.

[5] Considering the CRR Group perimeter, including the parent company BFF Luxembourg, the CET1 Ratio is 11.7% and the Total Capital ratio 16.2%. These ratios are subject to approval by BFF Luxembourg S.àr.l.

[6] Calculated as RWA / customer loans.

Asset quality

Superior asset quality is confirmed with a net non-performing loan / net loan ratio of 1.0% at end of June 2018 (0.2% net of Italian municipalities in conservatorship), versus the 0.6% at end of December 2017 and 0.6% at end of June 2017.

The increase in net NPL from €15.3m at end of June 2017 (€18.2m at the end of December 2017) to €29.6m at end of June 2018 is mainly related to the growing activities towards the Italian Municipalities. In particular, the exposure to Italian Municipalities in conservatorship classified as NPLs at the end of June (classified as NPL as requested by Bank of Italy's regulation[7], despite BFF is legally entitled to receive 100% of the capital and LPI at the end of the process) amount to €22.8m (€8.3m at end of June 2017 and €15.0m at the end of December 2017), and represent 77% of the total net NPL exposure at the same date. The aforementioned €22.8m of exposure to Italian municipalities in conservatorship includes €5.7m related to Italian municipalities already in conservatorship at the time of purchase. The NPL Coverage Ratio net of the municipalities in conservatorship is equal to 74% (86% at the end of December 2017 and 73% at the end of June 2017), while the Coverage Ratio including also the municipalities in conservatorship is equal to 43% (54% and 56% respectively at the end of December 2017 and June 2017).

Net past due, equal to €128.3m (€69.8m at year end 2017, and €54.7m in June 2017), are for 81% due from the Public Administration and public sector companies. Total impaired loans (non-performing, unlikely to pay, past due) – net of provisions – amounted to €167.1m (€94.7m at year end 2017, and €73.7m at June 2017) and are for 77% due from the Public Administration and public sector companies.

Significant events after the end of 1H18

There were no material events after the end of the semester under review.

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.

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[7] Circolare n. 272 del 30 luglio 2008 – 10° aggiornamento.

Consolidated Balance Sheet *(Values in €)*

Assets	31.12.2017	30.06.2018
Cash and cash equivalents	80,932,835	38,619,001
Financial assets measured at fair value through profit or loss	545,846	37,272
a) financial assets held for trading	-	-
b) financial assets designated at fair value	-	-
c) other financial assets mandatorily measured at fair value	545,846	37,272
Financial assets measured at fair value through OCI	101,449,267	159,160,707
Financial assets measured at amortized cost	4,183,888,076	3,983,273,088
a) Due from banks	44,792,419	19,214,857
b) Due from customers	4,139,095,657	3,964,058,231
Hedging instruments	321,839	-
Equity investments	260,893	150,919
Property, plant and equipment	12,794,887	12,481,533
Intangible assets of which:	26,034,157	25,277,829
- goodwill	22,146,189	22,146,189
Tax assets	30,917,074	19,259,930
a) current	25,883,920	11,292,030
b) deferred	5,033,154	7,967,900
Other assets	9,795,958	12,495,785
Total Assets	**4,446,940,832**	**4,250,756,065**

Liabilities and Equity	31.12.2017	30.06.2018
Financial liabilities measured at amortized cost	3,944,117,768	3,791,270,917
a) deposits from banks	657,992,541	687,294,961
b) deposits from customers	2,495,986,713	2,386,327,051
c) securities issued	790,138,514	717,648,905
Financial Liabilities Held for Trading	535,073	0
Financial liabilities designated at fair value	0	0
Hedging derivatives	0	0
Tax liabilities	82,455,762	72,609,145
a) current	25,627,899	14,016,660
b) deferred	56,827,864	58,592,485
Other liabilities	49,683,022	68,926,103
Employee severance indemnities	848,138	869,178
Provisions for risks and charges:	5,445,278	4,226,295
a) guarantees provided and commitments	0	202,596
b) pension funds and similar obligations	4,366,009	3,194,644
c) other provisions	1,079,269	829,055
Valuation reserves	7,693,804	-1,991,686
Reserves	129,621,486	142,809,147
Share premium	0	0
Share capital	130,982,698	130,982,698
Treasury shares	0	-267,207
Minority interests	10,000	0
Profit for the year	95,547,803	41,321,474
Total Liabilities and Equity	**4,446,940,832**	**4,250,756,065**

Consolidated Income Statement *(Values in €)*

Item	1H 2017	1H 2018
Interest and similar income	126,720,352	108,326,049
Interest and similar expenses	-20,133,080	-21,356,074
Net interest income	**106,587,272**	**86,969,975**
Fee and commission income	3,969,726	3,760,536
Fee and commission expenses	-501,374	-769,012
Net fees and commissions	**3,468,351**	**2,991,524**
Dividend income and similar revenue	45,684	2,433
Gains/losses on trading	-4,242,848	4,082,159
Fair value adjustments in hedge accounting	26,955	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	20,340	359,795
Operating income	**105,905,755**	**94,516,079**
Impairment losses/reversals on:		
a) receivables and loans	-1,905,282	-3,219,795
b) available-for-sale financial assets	0	-9,093
Net profit from banking activities	**104,000,473**	**91,287,192**
Net profit from financial and insurance activities	**104,000,473**	**91,287,192**
Administrative expenses:		
a) personnel costs	-15,195,331	-16,363,771
b) other administrative expenses	-18,183,992	-17,963,284
Net provisions for risks and charges:		
a) guarantees provided and commitments	0	-35,909
b) pension funds and similar obligations	-374,966	-513,010
Net adjustments to/writebacks on property, plant and equipment	-724,656	-718,331
Net adjustments to/writebacks on intangible assets	-900,884	-940,229
Other operating income/expenses	1,912,666	1,621,443
Operating expenses	-33,467,162	-34,913,092
Profit before tax from continuing operations	**70,533,311**	**56,374,100**
Income taxes on profit from continuing operations	-19,879,736	-15,052,626
Profit after tax from continuing operations	50,653,574	41,321,474
Profit for the year	**50,653,574**	**41,321,474**
Profit for the year attributable to owners of the Parent Company	**50,653,574**	**41,321,474**

Consolidated Capital Adequacy – Banking Group TUB

€m	BFF BANKING GROUP - EX TUB	
	30.06.2017	**30.06.2018**
Credit and Counterparty Risk	118.5	132.4
Market Risk	0.0	0.0
Operational Risk	29.8	28.0
Total Capital Requirements	**148.2**	**160.4**
Risk Weighted Assets (RWA)	**1,852.8**	**2,004.9**
CET I	**253.2**	**246.3**
Tier I	**0.0**	**0.0**
Tier II	**98.2**	**98.2**
Own Funds	**351.5**	**344.5**
CET 1 Capital Ratio	***13.7%***	***12.3%***
Tier I Capital ratio	***13.7%***	***12.3%***
Total Capital Ratio	***19.0%***	***17.2%***

Asset quality reported data

	30.06.2018		
€'000	**Gross**	**Provision**	**Net**
Non performing - total	51,917	-22,363	29,554
Unlikely to pay	12,615	-3,405	9,210
Past due	128,936	-607	128,328
Total	**193,467**	**-26,375**	**167,093**

	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**

	30.06.2017		
€'000	**Gross**	**Provision**	**Net**
Non performing - total	34,695	-19,366	15,329
Unlikely to pay	4,876	-1,153	3,722
Past due	54,921	-249	54,672
Total	**94,492**	**-20,768**	**73,724**

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 June 2018 was 12.3%.

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