

PRESS RELEASE
BFF BANKING GROUP

The Board approved the 2016 preliminary unaudited consolidated financial statements.

Highlights:

- Net profit *combined* with Magellan¹ at €88 million *adjusted*² for €11 extraordinary costs
- ROTE *combined* with Magellan¹ and *adjusted*² at 37%
- Proposed dividend distribution of €72 million, 5% above 2015, thanks to high capital generation
- CET1 ratio at 16.7%³, after dividend distribution and cash acquisition of Magellan
- Good asset quality: net NPLs/net loans at 0.5% including Magellan; cost of risk of 0.10%
- Net Banking income *combined*⁴ and *adjusted*⁵ of €175 million, up by 24% y/y; cost/income ratio *combined*⁴ and *adjusted*⁶ at 32%

Milan, 8 February 2017 – The Board of Directors of **Banca Farmafactoring (BFF)**, the specialist in management and non-recourse factoring of receivables towards the Public Administrations in Europe, approved the preliminary 2016 full year consolidated financial statements, which include Magellan for the first time, following its May 2016 acquisition. Magellan is the leading provider of financial services towards the healthcare sector and the Public Administration in Poland, and operates also in Slovakia and Czech Republic.

In 2016, the Group saw a +24% increase in net banking income^{1,2}, thanks to a solid business model, further funding optimisation, in addition to an efficient cost structure (cost/income ratio of 32%^{1,2}) and low credit risk (cost of risk 0.10%).

“In 2016, we consolidated our competitive position as a pan-European player, integrating Magellan within the BFF Banking Group. Capital ratios remain high, even after the cash acquisition of Magellan and the dividend proposal, combined with credit risk close to zero. These factors, together with the visibility of future revenues and synergies yet to be realised, allow us to look to the future positively,” - commented **Massimiliano Belingheri, CEO of BFF.**

Key consolidated financial statement items (BFF and Magellan combined):

Please note that the balance sheet figures at 31/12/2016 reflect the consolidation of 100% of Magellan within the group. The *stated* income statement figures include Magellan's contribution starting from June 1, when the acquisition was completed, whereas the *combined* data include Magellan's results starting from 1/1/2016.

Customer loans at the end of 2016 amounted to €2,499 million, compared to the previous year's €1,962 million (excluding Magellan), and up by 8% versus 30/06/2016 including Magellan. Italy remains the main market for the group with 75% of total loans (89% at the end of 2015), with foreign markets (Spain, Portugal and CEE) accounting for a quarter of the loans. Magellan's loans reached €447 million, 8% higher than year-end 2015 and accounting for 18% of total Group loans.

In 2016, the Group has continued its funding diversification. **Total funding** reached €3,152 million at year-end. Online deposits reached €817 million at 31 December 2016 (+95% compared to €418 million at end 2015). A €150 million bond was issued in June 2016, maturing in June 2021.

The average cost of funding shows a further reduction compared to the previous year: the *combined* figure including Magellan fell from 2.6% in 2015 to 2.1% in the second half of 2016⁴, including the cost of financing of the Magellan acquisition in PLN. In 2016 the Group started to refinance Magellan's balance sheet, a process which will continue in 2017, bringing significant synergies.

*Combined*¹ and *adjusted*⁵ **net banking income** amounts to €175 million in 2016, up 24% compared to the €142 million figure for BFF without Magellan in 2015. Even after the acquisition of Magellan, the operational structure remains highly efficient despite the investments made in 2016, with a *combined*¹ and *adjusted*⁶ **cost/income ratio** excluding extraordinary costs of 32% compared to 30% in 2015. The greater incidence of costs is mainly connected with the increase in personnel costs - 409 employees at Group level at end 2016 (of which 225 for BFF only) compared to 188 at end 2015 for BFF only – and higher accruals relating to the incentive system due to above-budget results, together with higher administrative costs to support business growth and the Group structure.

Net profit combined with Magellan¹ and *adjusted*² amounts to €88million, excluding non-recurring costs of €11 million after tax, due to the extraordinary contribution to the Resolution Fund (€1.5 million net), preparation costs for a possible listing⁷ (€2.4 million net) and the acquisition of Magellan (€7.6 million net).

Net profit *combined*¹ and *adjusted*² has risen sharply (+22%) compared to the €72 million *adjusted* net profit for 2015 (which excluded Magellan). The 2016 stated net profit (which includes Magellan only from June 1) amounts to €72million.

In 2016, Magellan reports a €9.6 million net profit adjusted for extraordinary costs, representing 11% of the *combined*¹ and *adjusted*² net profit for the Group.

ROTE *combined with Magellan*¹ and *adjusted*² reaches 37% in 2016, from 28% in 2015 excluding Magellan, thus confirming that the international expansion strategy has contributed to improving the Group's already high profitability.

In line with the Group dividend policy, the Board proposed a dividend distribution of €72 million, equal to the consolidated reported net profit and equivalent to a 100% pay-out ratio to reported income.

The Group maintains high capital ratios even after the cash acquisition of Magellan and the €72 million dividend distribution proposal, with a 16.7% CET1 ratio and a 16.7% Total Capital ratio calculated on the Banking Group perimeter (pursuant to former TUB – Testo Unico Bancario). Considering the CRR Group perimeter, including the parent company BFF Luxembourg, the **CET1 Ratio** is 16.4% and the Total Capital ratio 16.6%.

The Group confirms a superior asset quality, with a net non-performing loans/net loans at 0.5% at end of 2016, slightly higher than the 0.13% in 2015 due to Magellan's entry into the Group and expansion in the purchase of loans to the Italian local authorities segment.

Significant events since the end of 2016

On January 13, 2017, the rating agency DBRS – the Group ECAI – reduced the rating of the Italian Republic to BBB (high) with stable outlook. The Group estimates that this will have a negative impact on its capital ratios of approximately 360 basis points pro-forma on 31/12/2016 with effects starting from 31/3/2017. The Group plans to counter this with internally generated capital and other measures.

The Group is currently awaiting the communication from Bank of Italy of its 2016 SREP capital ratios.

Please also note that the merger of Mediona spółka z ograniczoną odpowiedzialnością with Magellan S.A., closed on December 16, 2016, may give rise to a tax benefit for the latter, which could be included in the financial statements of the Group should the Polish tax authorities approve the request.

Notes to the text:

- 1) The *combined* figures include Magellan's contribution for the entire year, i.e. as if the acquisition had already taken place from 1/1/2016.
- 2) The *adjusted* net profit excludes the following non-recurring costs: extraordinary contribution to the Resolution Fund (€1.5 million net / €2.2 million gross), expenses connected with the preparation for a possible listing (€2.4 million net / €3.5 million gross) and the acquisition of Magellan (€7.6 million net / €10.4 million gross).

The *adjusted* net profit includes the following costs: financing for Magellan acquisition for June-December 2016 (€1.4 million net / €2.0 million gross) and the ordinary contribution to the Deposit Guarantee Fund and the Resolution Fund (€1.1 million net).
- 3) Calculated on the Banking Group perimeter (pursuant to former TUB – Testo Unico Bancario). Considering the CRR Group perimeter, including the parent company BFF Luxembourg, CET1 amounts to 16.4%
- 4) Calculated excluding ECB operations and repos. Includes the cost of financing for the acquisition of Magellan for June-December 2016 (€2 million).
- 5) Net banking income *adjusted* excludes €3.5 million extraordinary costs mainly related to fees for the waiver process.
- 6) Cost/income *adjusted* is calculated as operating costs excluding extraordinary costs/ net banking income *adjusted*.
- 7) On December 23, 2016 CONSOB approved the *Documento di Registrazione (DDR)*.

Consolidated Financial Statements:

The Preliminary Financial Statements of BFF Banking Group at 31 December 2016 are provided below. The balance sheet as at 31/12/2016 reflects the 100% consolidation of Magellan. The income statement includes the contribution of Magellan from June 1, i.e. the date on which the acquisition was completed. The *combined* figures include Magellan's contribution for the entire year, i.e. already from 1/1/2016.

The 2016 Preliminary Financial Statements have not been audited or verified by any independent source for accuracy or completeness and may be subject to further changes.

The 2016 Preliminary Financial Statements included in this press release may be subject to adjustments and amendments when Banca Farmafactoring S.p.A. publishes its final 2016 financial statements. Any material adjustment and amendment will be indicated together with the publication of 2016 financial statements.

The Board will approve the 2016 Consolidated Annual Report on 13 February 2017.

Consolidated Balance Sheet *(Values in €)*

Assets	12/31/2015	12/31/2016
Cash and cash equivalents	159,775	149,035
Financial assets held for trading	0	244,420
Financial assets at <i>fair value</i> through profit or loss	0	3,401,129
Available-for-sale financial assets	429,437,687	385,279,885
Held to maturity financial assets	822,858,767	1,629,319,849
Due from banks	60,522,545	144,871,367
Due from customers	1,962,004,347	2,499,094,435
Hedging instruments	0	529,027
Equity investments	0	301,567
Property, plant and equipment	12,665,596	12,988,330
Intangible assets	2,746,916	25,811,363
of which:		
- <i>goodwill</i>	0	22,146,189
Tax assets	28,053,378	25,870,072
<i>a) current</i>	25,113,356	21,450,987
<i>b) deferred</i>	2,940,022	4,419,084
<i>of which under Law 214/2011</i>	546,940	748,650
Other assets	3,105,924	7,135,948
Total Assets	3,321,554,935	4,734,996,427

Liabilities and Equity	12/31/2015	12/31/2016
Due to banks	688,080,771	634,806,875
Due to customers	1,726,682,877	2,996,142,256
Securities issued	452,962,115	634,282,882
Financial liabilities held for trading	0	7,248
Hedging derivatives	0	176,037
Tax liabilities	70,582,775	73,658,616
<i>a) current</i>	23,804,794	24,129,771
<i>b) deferred</i>	46,777,981	49,528,845
Other liabilities	45,884,998	54,319,925
Employee severance indemnities	883,124	867,129
Provisions for risks and charges:	5,194,831	6,989,235
<i>a) pension funds and similar obligations</i>	4,829,872	6,342,956
<i>b) other provisions</i>	364,959	646,279
Valuation reserves	4,183,573	4,494,859
Reserves	127,409,048	126,132,168
Share capital	130,900,000	130,982,698
Profit for the year	68,790,823	72,136,499
Total Liabilities and Equity	3,321,554,935	4,734,996,427

Consolidated Income Statement *(Values in €)*

Item	12/31/2015	12/31/2016
Interest and similar income	161,945,547	190,225,502
Interest and similar expenses	(28,898,423)	(31,020,474)
Net interest margin	133,047,124	159,205,028
Fee and commission income	8,388,544	7,832,442
Fee and commission expenses	(445,659)	(4,477,743)
Net fees and commissions	7,942,885	3,354,700
Dividend income and similar revenue	0	60,488
Gains/losses on trading	45,760	681,837
Fair value adjustments in hedge accounting	(22,837)	(1,011)
Gains (losses) on disposals/repurchases of: <i>available-for-sale financial assets</i>	871,871	705,563
Operating income	141,884,803	164,006,605
Impairment losses/reversals on:		
<i>a) receivables and loans</i>	(1,125,531)	2,180,160
<i>b) available-for-sale financial assets</i>	0	(63,885)
Net profit from banking activities	140,759,272	161,762,560
Net profit from financial and insurance activities	140,759,272	161,762,560
Administrative expenses:		
<i>a) personnel costs</i>	(18,476,448)	(24,923,620)
<i>b) other administrative expenses</i>	(27,090,536)	(38,717,534)
Net provisions for risks and charges	(879,257)	2,075,111
Net adjustments to/writebacks on property, plant and equipment	(1,114,700)	(1,282,155)
Net adjustments to/writebacks on intangible assets	(1,022,515)	(1,334,042)
Other operating income/expenses	4,143,812	5,703,586
Operating expenses	(44,439,644)	62,628,875
Profit before tax from continuing operations	96,319,628	99,133,685
Income taxes on profit from continuing operations	(27,528,805)	26,997,186
Profit after tax from continuing operations	68,790,823	72,136,499
Profit for the year	68,790,823	72,136,499
Profit for the year attributable to owners of the parent	68,790,823	72,136,499

Income Statement *(Values in € million)*

	Accounting result 2016 (includes Magellan for 7 months)	Magellan Result 2016 (12 months)¹	BFF + Magellan 2016 <i>combined</i> (includes Magellan for 12 months)
Net Banking income	164.0	19.2	172.0
Operating costs ²	66.3	9.6	69.0
Profit Before Income Taxes from Continuing Operations	99.1	8.6	104.1
Net Income	72.1	6.8	76.1
Net Income Adjusted³	83.6	9.6	87.7

(1) Reclassified under Bank of Italy requirements.

(2) Includes Staff costs, administration costs, depreciation and amortisation on tangibles and intangibles. Does not include provisions, which are instead included in Magellan reclassifications.

(3) The *adjusted* net profit excludes the following non-recurring costs: extraordinary contribution to the Resolution Fund (€1.5 million net / €2.2 million gross), expenses connected with the preparation for a possible listing (€2.4 million net / €3.5 million gross) and the acquisition of Magellan (€7.6 million net / €10.4 million gross).

The *adjusted* net profit includes the following costs: financing of Magellan for June-December 2016 (€1.5 million net / €2.0 million gross) and the ordinary contribution to the Deposit Guarantee Fund and the Resolution Fund (€1.1 million net).

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