

PRESS RELEASE

BFF Banking Group approved the 2023 strategy and the 2021 financial targets

Milan, May 29th, 2019 – Today the Board of Directors of Banca Farmafactoring S.p.A. approved the five-year strategic plan (“**BFF 2023**” or the “**Plan**”) and the three-year financial plan (“**2021 Financial Target**”) for **BFF Banking Group**.

STRATEGIC GOALS 2023

- Continue to **develop current core business and improve operating efficiency**:
 - further strengthen of the leadership position in Italy;
 - expansion of the business in Southern Europe;
 - capture the growth potential of BFF Polska’s business in the Central Eastern Europe;
 - strengthen the relationships with clients’ headquarters and increase cross-border deals;
 - expansion into other geographies;
 - expansion of the target client base to smaller suppliers, leveraging on digital platforms;
 - widen the product offering to segments / business lines adjacent to current operations.
- Continue to **optimise funding and capital**.
- Consolidate existing business and/or expand into other underserved markets via **M&A**.

FINANCIAL TARGETS 2021

- Volume and loans growth >10% per annum;
- Adjusted Net Profit growth c. 10% per annum on average;
- Return on average Tangible Equity (RoTE) >30%, on a solid capital base (Total Capital Ratio target of 15% and a growing CET1 ratio) and with a low credit risk profile and high operational efficiency.

The “BFF 2023” Business Plan will be presented on Monday June 3rd at 10:30 a.m. GMT (11:30 a.m. CET) in London at “The Ned”, Room The Saloon (entrance at 5 Princes St, www.thened.com).

To participate in this event, you are required to confirm your attendance via e-mail to investor.relations@bffgroup.com by Friday May 31st, 2019 COB.

The “*BFF 2023*” Strategy presentation is available on BFF Group’s website www.bffgroup.com in the *Investors > Presentations* section.

Massimiliano Belingheri, CEO, commented: *“We aim to be the Bank leader in specialty finance niches in Europe, by leveraging on our primary position in financial services to the suppliers to the Public Administration and Healthcare. We are committed to achieve this by operating with honesty and transparency, investing in our people, maintaining leadership in innovation, customer service and execution in our reference markets, with a low risk profile and high operational efficiency, and by being aligned with the corporate governance best practices for public companies.”*

The “BFF 2023” strategy confirms the growth trend and financial performance delivered by the Group over the last 5 years. Since 2013 BFF grew the loan book by more than 3 times, organically and through Magellan acquisition (now BFF Polska), generating a high and stable yield on RWA (>10%) and halved the cost of funding to 1.7% by accessing multiple funding sources. We invested in the business while improving the operating leverage, with the operating cost / loan ratio decreasing from 2.70% in 2013 to 2.24% in 2018. We maintained a high-quality portfolio and improved the return on capital, with the RoTE increasing from 26% in 2013 to 37% in 2018. Over the same period, we also distributed €411m of dividends.

The Plan, which will be presented in London by the management of BFF on Monday June 3rd, 2019, illustrates (i) the main growth opportunities for each of the products offered by the Group, (ii) the key dynamics of the funding and capital, and (iii) the drivers and trend of the main P&L items. The presentation outlining the detail of the Plan is available on BFF Group’s website www.bffgroup.com in the *Investors > Presentations* section.

I. MAIN GROWTH OPPORTUNITIES

1) Non-recourse factoring

Our **addressable market** is the public expenditure in goods and services, c. €270bn in 2018 of which only c. 10% is estimated to be factored non-recourse.

We expect to expand it to **€436bn in 2023**, c. 10x vs. 2013, thanks to:

- The nominal growth of the public expenditure in goods and services at c. 2% per annum;
- An increase in market penetration. Currently only c. 10% is estimated to be factored non-recourse;
- New markets identified (i.e. France, Romania, Bulgaria e Hungary) which represent an additional c. €140bn of public expenditure in goods and services.

The Group is planning to expand into new markets in freedom of service leveraging on 30+ years of experience in the sector, IT infrastructure and existing capabilities. This approach requires a low initial investment. Local presence would be established only when size warrants physical presence, as we did, for example, in Portugal.

Further growth opportunities include expanding the product coverage to:

- private hospitals and pharmacies for receivables towards HC;
- suppliers for receivables towards pharmacies and distributors.

2) Credit management

We currently only offer credit management services in Italy (and in Spain only after the closing of IOS Finance acquisition). The credit management service is a strategic product for the Group which serves to retain client relationships with positive impact on non-recourse volumes. The main services included are: electronic invoicing on behalf of the clients, monitoring of credit performances, management of the debtor, legal actions and cash reconciliation.

The growth opportunities for the credit management service are:

- extend the offering to other countries where the Group operates (e.g. Spain and Portugal);
- in Italy, extend the service for receivables towards pharmacies and distributors, using the same type of partnership agreement with Pfizer;
- offer the client the ability to outsource their entire management and collection process for the whole PA;
- include additional services in the current offering.

3) Lending

This service is only currently offered by BFF Polska in Poland, Slovakia and Czech Republic (direct financing to healthcare entities and local governments). This business has an average duration longer than the traditional non-recourse factoring and requires specific know-how and commercial relationships with public bodies.

The main growth opportunities for this business are:

- further develop the offering to the Polish local governments;
- acquisition of niche lending platforms or players.

II. FUNDING AND CAPITAL

The growth of the business will be supported by our ample and diversified funding base. We are analysing the possibility to extend our online deposit offering (while leveraging on third-party platforms) into other geographies where the average top interest rates offered are lower than those being offered in the markets already covered by BFF. We can also rely on our active EMTN programme for €1bn to swiftly benefit from market opportunities and issue new bonds.

Our prudent ALM strategy aims at maintaining (i) the duration of the assets lower than the

duration of the liabilities (including deposits), (ii) a high liquidity buffer to face potential shock in DSO and surge in client demand, (iii) a natural currency hedge and (iv) to be positively geared to higher interest rates.

The capital generated organically by the business is significantly higher than the capital absorbed by the balance sheet growth. We can self-fund over 30% of loan growth per annum at constant RWA density, even more in the event of lower RWA density of marginal loans and with the issuance of Tier II instruments. We confirm the already stated dividend policy, aiming to self-fund growth and pay to shareholders the excess capital above the 15% of Total Capital (“TC”) ratio. More specifically, earnings of the period are retained to maintain the 15% TC ratio target, while the portion of the net income of the year in excess of the 15% TC threshold is paid-out to shareholders. There is no obligation to pay a minimum DPS or pay-out ratio every year. Additionally, the TC ratio can also go below 15% in order to exploit growth opportunities. Therefore, thanks to the combination of high RoTE (>35%) and a lower RWA density for marginal loans, we are able to self-fund the business expansion organically and still deliver dividends.

Based on the above dividend policy, assuming a constant amount of Tier II capital outstanding, the CET 1 ratio would increase because of the loan growth.

III. TREND OF THE MAIN P&L ITEMS

We expect to maintain a stable or marginally higher yield on RWA despite the significant deferred income due to our prudent accounting policy of Late Payment Interests (“LPI”).

The cost of funding is expected to improve thanks to:

- the launch of online deposits offering in Poland;
- the increase of drawn funding different from Tier II and acquisition financing;
- possible assignment of a credit rating.

We expect to further improve the operating leverage (operating cost / loans ratio) as we have made significant investment in growth in the last few years and the infrastructure is not yet saturated. Additionally, the operating leverage should also improve thanks to the access, since 2018, to a lower cost base in Poland for the back-office activities.

We expect to maintain a high quality of the assets and a low Cost of Risk, with loan loss provisions impacted mainly by:

- the increasing activity towards Italian municipalities, which would be offset in the M/L term by the release of provisions following the collections of those exposures;
- the direct lending business with a higher duration vs. non-recourse factoring.

We do not expect significant impact from the new regulation on past due and calendar provisioning over the financial plan horizon.



This press release is available online on BFF Group's website www.bffgroup.com within the section *Investors > Press Releases*.

BFF Banking Group

BFF Banking Group, listed on the Milan Stock Exchange since 2017, is the leading player specialised in the management and non-recourse factoring of trade receivables due from the Public Administrations in Europe. The Group operates in Italy, Poland, Czech Republic, Slovakia, Spain, Portugal, Greece and Croatia. In 2018 it reported a consolidated Adjusted Net Profit of € 91.8 million, with a 10.9% Group CET1 ratio at the end of December 2018. www.bffgroup.com

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