MOODY'S INVESTORS SERVICE

CREDIT OPINION

9 June 2021

Update

Rate this Research

RATINGS

BFF Bank S.p.A.

Domicile	Italy
Long Term CRR	Baa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Ba2
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Baa2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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BFF Bank S.p.A.

Update to credit analysis following rating action

Summary

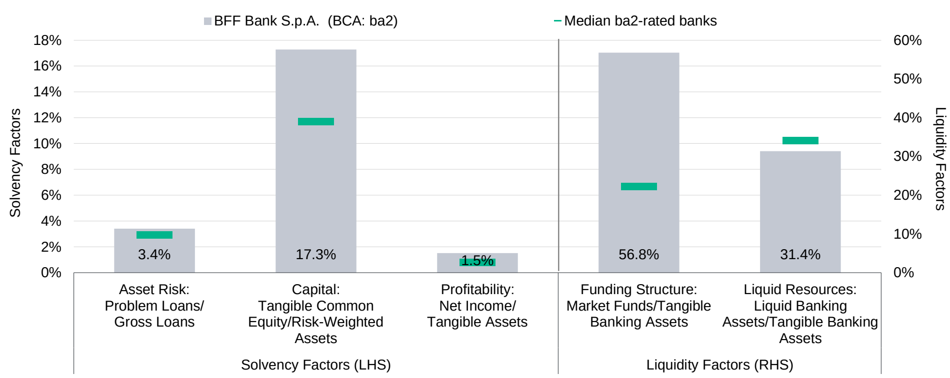
We assign a ba2 Baseline Credit Assessment (BCA), a Ba2 long-term issuer rating, a Baa2 long-term Counterparty Risk Rating (CRR), a Baa2(cr)/Prime-2(cr) Counterparty Risk Assessment (CRA) and Baa2 long-term deposit ratings to BFF Bank S.p.A. (BFF).

The ba2 BCA reflects BFF's sound asset quality, strong profitability, modest capitalisation, and ample liquidity. The BCA also takes into consideration the bank's very rapid growth, including the acquisition of DEPObank finalised in March 2021 which will diversify BFF's activities beyond its core business of factoring receivables from public administration bodies into the depositary and payment businesses.

BFF's Baa2 deposit and Ba2 issuer ratings reflect its ba2 BCA; the extremely low and moderate loss given failure according to our Advanced Loss Given Failure (LGF) analysis, resulting in three and zero notches of uplift, respectively; and a low probability of government support, which does not result in any further uplift to the ratings.

Exhibit 1

Rating Scorecard - Key financial ratios



Ratios of capital, funding structure and liquid resources are based on the most recent data; ratios of asset risk and profitability are based on three-year averages or the most recent data, if such data is "worse" than the averages.
Source: Moody's Financial Metrics

Credit strengths

» Sound asset quality

» Strong profitability

Credit challenges

» Fast growth organically and through acquisitions

» Modest capitalisation

Outlook

The outlooks on BFF's long-term deposit, senior unsecured debt and issuer ratings are stable, reflecting our view that BFF will maintain strong asset quality, good profit generation and solid funding profile over the next 12-18 months. We also consider BFF to be less exposed than other commercial Italian banks to the downside risks from the coronavirus pandemic due to its business model, which focuses primarily on public administration receivables, with limited exposures to corporate and small and medium-sized enterprises (SMEs).

Factors that could lead to an upgrade

BFF's BCA could be upgraded if the bank strengthened its capitalization, while maintaining sound profit generation and low asset risk.

BFF's long-term deposit and senior unsecured debt ratings could be upgraded following an upgrade of the bank's BCA. The senior unsecured debt rating could also be upgraded following a material issuance in the stock of bail-in-able debt.

Factors that could lead to a downgrade

BFF's BCA could be downgraded if the bank reported material capital-eroding losses, experienced a material deterioration in asset quality, or a material outflow in deposits or both.

BFF's long-term deposit and senior unsecured debt ratings could be downgraded following a downgrade of the bank's BCA. The senior unsecured debt rating could also be downgraded following a material reduction in the stock of bail-in-able debt. The deposit rating could also be downgraded following a material reduction in the bank's stock of bail-in-able debt.

Key indicators

Exhibit 2
BFF Bank S.p.A. (Consolidated Financials) [1]

	12-20[2]	12-19[2]	12-18[2]	12-17[2]	12-16[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	6,051.3	5,489.3	4,941.5	4,446.9	4,735.0	6.3[4]
Total Assets (USD Million)	7,404.1	6,161.7	5,648.9	5,339.9	4,994.2	10.3[4]
Tangible Common Equity (EUR Million)	424.4	335.4	339.0	330.1	303.4	8.8[4]
Tangible Common Equity (USD Million)	519.3	376.5	387.5	396.4	320.1	12.9[4]
Problem Loans / Gross Loans (%)	3.4	2.9	3.8	3.5	2.6	3.3[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.3	11.4	12.0	12.6	12.6	13.2[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	31.7	34.0	38.0	30.6	21.2	31.1[5]
Net Interest Margin (%)	3.5	4.0	4.2	4.4	4.0	4.0[5]
PPI / Average RWA (%)	4.4	4.5	4.9	5.4	5.0	4.8[6]
Net Income / Tangible Assets (%)	1.5	1.7	1.9	2.2	1.5	1.8[5]
Cost / Income Ratio (%)	41.8	39.9	35.4	31.8	39.0	37.6[5]
Market Funds / Tangible Banking Assets (%)	56.8	57.6	60.7	83.1	65.4	64.7[5]
Liquid Banking Assets / Tangible Banking Assets (%)	31.4	23.7	25.9	30.5	45.9	31.5[5]
Gross Loans / Due to Customers (%)	216.3	241.4	273.0	1783.6	211.7	545.2[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Investors Service and company filings

Profile

BFF Bank S.p.A. (BFF) was established in 1985 in Italy by a group of pharmaceutical companies, and it is headquartered in Milan.

Together with its subsidiaries, BFF focuses mostly on the non-recourse factoring of receivables due from the counterparties of the national healthcare systems and public administration agencies in Italy, Spain, Portugal, France, Poland, the Czech Republic, Slovakia, Greece and Croatia. The bank also offers financing to the healthcare and local government entities in Central and Eastern Europe.

BFF obtained a banking licence in 2013, and it is supervised by the Bank of Italy. It has been listed on the Milan Stock Exchange since 2017.

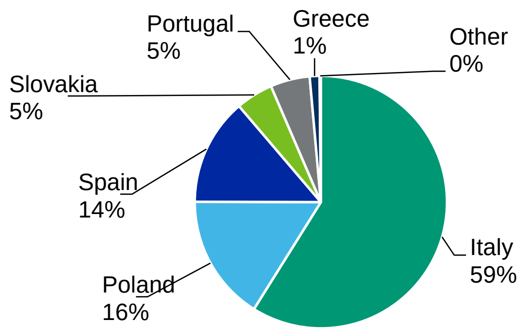
In March 2021, BFF finalised the acquisition of DEPObank, an Italian depositary bank which also operates in the field of payment services. The acquisition marked a significant departure from BFF's core business, which is focused on factoring receivables from public administration bodies by entering securities services and payment businesses. The acquisition materially increased the group size as DEPObank held total assets of over €10 billion at end-2020 compared to around €6 billion of BFF at the same date.

Detailed credit considerations

Despite the bank's geographical diversification in Europe, the operating environment is aligned with Italy's Moderate+ Macro Profile

Since its establishment in 1985 in Italy, BFF Banking Group has spread its activities across eight European Union (EU) countries through its main entity BFF and its subsidiaries BFF Finance Iberia S.A. (previously Farmafactoring Espana, active since 2011) and BFF Polska S.p.A. (previously Magellan S.A., acquired in 2016). Despite the blend of its wide geographical exposures and its growing foreign activities, the majority of BFF's business remains concentrated in Italy, which accounted for 59% of its total loans as of December 2020. Therefore, the Macro Profile of BFF is the same as that of Italy at Moderate+.

Exhibit 3
Customer loans breakdown by geography



Source: December 2020 BFF results presentation

Sound asset-risk profile

We assign an Asset Risk score of ba1, two notches below the Macro-Adjusted score, to reflect BFF's low level of problem loans, but also the bank's rapid growth and increased exposure to market risk.

BFF's exposures are mostly towards the public sector, which we consider of higher quality and bear lower risk than corporate lending. Due to the nature of BFF's exposures, we believe that the bank will not experience the same degree of asset quality deterioration that we expect for other Italian banks during 2021 and 2022.

The assigned score also reflects BFF's increased exposure to market risk following the acquisition of DEPObank, given the sizeable Italian government bond portfolio it acquired (around €3.3 billion), whilst we believe that the bank's loan quality did not materially change as loans held by DEPObank accounted to only €231 million compared to over €4 billion at BFF. The gross NPL ratio of DEPObank stood at 2.9% at end-2020 compared to a 3.4% NPL ratio of BFF at the same date.

BFF's NPL ratio of 3.4% compares favourably with the Italian average of 4.1% in December 2020. The bank has a relatively large amount of past due loans (€42 million in December 2020 out of the gross problem loans amounting to €147 million) because of the delays in payments by the public administration agencies in the countries where it operates. Past due loans as of the end-March 2021 decreased to €5.8 million thanks to the application of the new definition of default. The rate of migration to the nonperforming category is very low, and, in most cases, BFF is able to recover the full amount of past due loans over time, which is also reflected in the low level of loan-loss charges reported by the bank in recent years. The cost of risk as of December 2020 was at just 8 basis points.

Loan-loss reserves represented only 14.1% of BFF's problem loans as of December 2020. The level is lower than that of other Italian banks (around 55%), but it reflects the overall good quality of BFF's exposures and the track record of the low loan losses incurred by the bank in the past. BFF has experienced fluctuations in the level of coverage over time, which dropped to 18% in 2020 from 31.1% in 2014; however, these fluctuations are mostly due to the nature of the receivables that BFF started purchasing in 2015, namely, from the Italian municipalities in conservatorship. These receivables were classified as problem loans in view of the public administration's late payments, but they did not involve provisions, given the prospect and proven track record of full recovery.

BFF's rapid growth strategy, both through organic means and acquisitions in foreign markets, such as the expansion in Poland, Croatia, Spain and France, may expose the bank to additional risks previously not experienced by it within its domestic market, while the rapid expansion of assets may reveal different loss characteristics over time.

Modest capitalisation to support business growth

We assign a ba3 score to Capital, which reflects BFF's modest capitalisation, its fast growth, high dividend policy, and the impact of the recent acquisition of DEPObank.

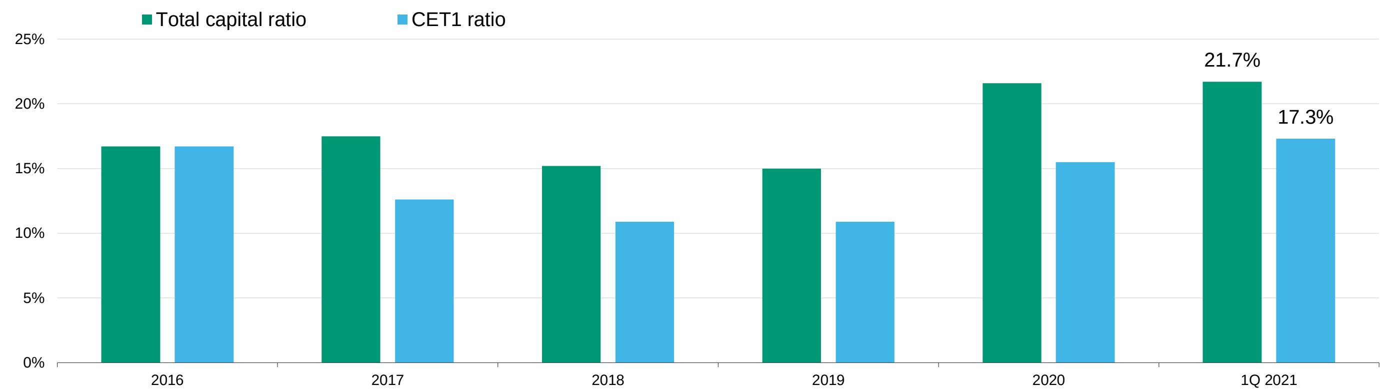
BFF disclosed a Common Equity Tier 1 (CET1) ratio of 15.5% and a total capital ratio of 21.6% at end-2020. The bank has an internal minimum target of 15% of total capital ratio, which it plans to maintain unchanged after the acquisition of DEPObank. BFF also has the flexibility to reduce its dividend distributions in case of need to maintain its total capital ratio above the 15% threshold. The total capital ratio includes €100 million of Tier 2 debt issued by the bank in 2017.

BFF disclosed a CET1 of 17.3% after the acquisition for the combined entities, however the impact on Moody's-calculated TCE ratio is strongly negative as we weight Italian government bonds 50% in Risk Weighted Assets (RWAs), which is the biggest part of DEPObank's assets (€3.3 billion) and we expect the TCE ratio to fall to around 8.4% from 17.3% of BFF standalone.

BFF uses the standardized approach for the computation of RWA, which contributes to a higher RWA density than that of other Italian banks that calculate their RWA according to the internal risk-based approach. However, in the fourth quarter 2020 the bank was allowed to apply a 20% risk-weighting factor on exposures to the National Health-care Systems and other Public Administrations[1] (art. 116 CRR) from 31 December 2020.

Exhibit 4

Capital ratios



Source: BFF and Moody's Investors Service

Strong profitability, with a moderate degree of volatility

We view BFF's profitability as one of its key strengths and we assign a baa1 score, one notch below the Macro-Adjusted score.

BFF's profitability has been sound in recent years. In 2020 the bank reported a net profit of €91 million, equivalent to 1.5% of its tangible banking assets. The net results of 2020 include €2.5 million of M&A costs related to the planned acquisition of DEPObank. BFF's profitability is much stronger than that of most Italian banks, with a sound net interest margin of around 3.45%. BFF's cost-to-income ratio is increasing gradually as a result of its expansion strategy, but it was still robust at below 42% as of December 2020.

Historically, BFF's niche business of factoring receivables towards public administration bodies has been consistently profitable. The bulk of BFF's earnings comes from the discount at which it purchases the receivables from the public entities' suppliers, and the late interest payments that it charges public entities, at a rate stipulated by EU regulations, for the delays in the payments to suppliers by the public administration. We expect the acquisition of DEPObank to slightly decrease BFF's return on assets, although the group will benefit from greater diversification by entering the depositary bank and payment business.

High reliance on market funding offset by ample liquidity

The proposed b2 Funding Structure score, one notch above the Macro-Adjusted score, reflects the expectation that the acquisitions of DEPObank will improve BFF's funding due to the amble deposit base acquired of over €8 billion.

Before the acquisition of DEPObank, BFF was primarily wholesale funded, with market funds accounting for 57% of its total banking assets as of the end of December 2020, with €1.2 billion of drawn credit lines from financial institutions, €1.7 billion of repurchase agreements and €650 million of bonds. BFF's online deposits amounted to €1.7 billion as of December 2020. BFF also has 100 million of Tier 2 debt outstanding.

We believe that BFF's funding profile and liquidity will benefit from the bank's acquisition of DEPObank and that this was a key driver for the acquisition. The group gained access to DEPObank's ample deposit base and large stock of liquid assets, although the deposits are essentially wholesale in nature, deriving from DEPObank's core businesses of depositary bank and payment services, and, hence, will likely be more credit-sensitive than retail deposits.

We assign a a3 Liquid Resources score, one notch above the Macro-Adjusted score, reflecting the high level of liquid banking assets (31.4% at end 2020). BFF reported a liquidity coverage ratio and a net stable funding ratio of 374% and 192%, respectively, as of the end of March 2021, and both figures increased from those posted one year earlier.

The acquisition of DEPObank will significantly increase the level of liquid assets of the bank thanks to the over €3 billion of Italian government bonds accounted at amortized cost. Moreover the acquisition will allow BFF to reduce its reliance on repurchase agreements with lower asset encumbrance.

Limited diversification, which leads to a negative adjustment to the financial profile

We adjust BFF's ba1 Financial Profile score downward by one notch to reflect the bank's limited degree of diversification also following the acquisition of DEPObank, as the bank's core business remains focused on factoring towards the public sector.

ESG considerations

In line with our general view of the banking sector, BFF has low exposure to environmental risks and a moderate exposure to social risks. See our environmental risks heat map for further information.

We expect BFF to face moderate social risks, in line with our view of the banking sector. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the areas of data security and customer privacy, which are mitigated by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct are further social risks. Moreover, we regard the pandemic as a social risk under our environmental, social and governance (ESG) framework, given the substantial implications for public health and safety.

Social trends are also relevant in a number of areas, such as shifting customer preferences towards digital banking services, increasing information technology costs, ageing population concerns in several countries affecting the demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue base. See our social risks heat map for further information.

With a 7.59% stake, Equinova UK Holdco Limited is BFF's main shareholder. The bank's management holds a 5.65% stake, and the remaining 86.77% is in free float as of 8th May 2021. On March 2021 the Annual General Meeting voted the renewal of the board of directors, with more than 70% of votes to the list of the outgoing Board of Directors. We do not have any particular concern around BFF's governance.

Support and structural considerations

Loss Given Failure (LGF) analysis

BFF is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime.

In a resolution scenario, the losses imposed on creditors will typically depend on a country-based division of assets and liabilities, and not necessarily on those of the consolidated group. In our Advanced LGF analysis, we consider BFF's tangible banking assets of €11.3 billion as of the end of December 2020, taking into consideration the pro-forma combined assets of the Italian parent entity BFF Bank S.p.A. and those of DEPObank at the same date.

In determining the stock of bail-in-able debt in a resolution scenario, we consider all bonds issued by BFF and by all funding vehicles outside of Italy, which issue instruments guaranteed by BFF. This leads to the inclusion of €650 million senior unsecured bonds and €100 million of Tier 2 debt in our LGF analysis.

Our analysis assumes a residual TCE of 3%, post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits and a 5% run-off in preferred deposits. These assumptions are in line with our standard assumptions. In addition, we assume a 26% proportion of junior deposits, as deposits acquired from DEPObank are mostly wholesale.

We also take into consideration full depositor preference, whereby junior deposits are preferred over senior debt creditors in accordance with a law decree, introducing full depositor preference in Italy starting from 2019.

On this basis, we believe BFF's deposits are likely to have extremely low loss given failure because of the loss absorption provided by the residual equity, which we expect in resolution, senior unsecured debt and the volume of deposits themselves. This is supported by the combination of deposit volume and subordination. This results in a three-notch uplift from the bank's BCA.

BFF's senior unsecured debt will likely face moderate loss given failure because of the loss absorption provided by the residual equity, which we expect in resolution, and the volume of senior unsecured debt itself. This assumption is supported by the combination of senior unsecured debt volume and subordination, and results in no uplift from the bank's BCA.

Government support considerations

Given BFF's limited market share and low systemic importance, it is unlikely that the Italian government will provide extraordinary support to the bank in the event of stress. Hence, we do not assign any government support uplift to BFF.

Counterparty Risk Rating (CRRs)

CRRs are opinions on the ability of entities to honour the uncollateralised portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect the expected financial losses in the event that such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties. Examples of CRR liabilities include the uncollateralised portion of payables arising from derivative transactions and the uncollateralised portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations, and other similar obligations that arise from a bank performing its essential operating functions.

BFF's CRRs are positioned at Baa2/Prime-2

The CRRs are three notches above the bank's ba2 Adjusted BCA. The uplift results from the buffer against default provided to the operating obligations by the residual equity, which we expect in resolution, subordinated debt, senior debt and junior deposits. The CRRs do not include any further uplift because of our expectation of a low probability of government support.

Counterparty Risk (CR) Assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails and are distinct from debt and deposit ratings in that they consider only the risk of default rather than both the likelihood of default and the expected financial loss suffered in the event of default, therefore we focus purely on subordination and take no account of the volume of the instrument class; and apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (for example, swaps), letters of credit, guarantees and liquidity facilities.

BFF's CR Assessment is positioned at Baa2(cr)/Prime-2(cr)

The CR Assessment is three notches above the bank's ba2 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by subordinated instruments.

Rating methodology and scorecard factors

Exhibit 5

BFF Bank S.p.A.

Macro Factors							
Weighted Macro Profile	**Moderate +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	3.4%	baa2	↔	ba1	Loan growth	Market risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	17.3%	a2	↓↓	ba3	Expected trend	Nominal leverage
Profitability						
Net Income / Tangible Assets	1.5%	a3	↓	baa1	Expected trend	
Combined Solvency Score		a3		ba1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	56.8%	b3	↑↑	b2	Expected trend	Deposit quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	31.4%	baa1	↑↑	a3	Expected trend	
Combined Liquidity Score		ba3		ba2		
Financial Profile				ba1		
Qualitative Adjustments				Adjustment		
Business Diversification				-1		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				-1		
Sovereign or Affiliate constraint				Baa3		
BCA Scorecard-indicated Outcome - Range				ba1 - ba3		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	8,557	75.7%	4,444	39.3%
Deposits	1,654	14.6%	5,617	49.7%
Preferred deposits	1,224	10.8%	4,397	38.9%
Junior deposits	430	3.8%	1,220	10.8%
Senior unsecured bank debt	650	5.8%	800	7.1%
Dated subordinated bank debt	100	0.9%	100	0.9%
Equity	339	3.0%	339	3.0%
Total Tangible Banking Assets	11,300	100.0%	11,300	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	21.8%	21.8%	21.8%	21.8%	3	3	3	3	0	baa2
Counterparty Risk Assessment	21.8%	21.8%	21.8%	21.8%	3	3	3	3	0	baa2 (cr)
Deposits	21.8%	3.9%	21.8%	11.0%	2	3	3	3	0	baa2
Senior unsecured bank debt	21.8%	3.9%	11.0%	3.9%	2	0	0	0	0	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	baa2	0	Baa2	Baa2
Counterparty Risk Assessment	3	0	baa2 (cr)	0	Baa2(cr)	
Deposits	3	0	baa2	0	Baa2	Baa2
Senior unsecured bank debt	0	0	ba2	0	Ba2	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
BFF BANK S.P.A.	
Outlook	Stable
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa2/P-2
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Issuer Rating -Dom Curr	Ba2
Senior Unsecured -Dom Curr	Ba2

Source: Moody's Investors Service

Endnotes

1 From the previous risk-weighting linked to the countries' sovereign ratings

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454