
**EXPLANATORY REPORT OF THE BOARD OF DIRECTORS ON THE SECOND
ITEM ON THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING**

**(PURSUANT TO ARTICLE 125-TER OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998, AS AMENDED
AND SUBSEQUENT AMENDMENTS AND ADDITIONS)**

(CONVENEND FOR 18 APRIL 2024 IN SINGLE CALL)

2. Allocation of profits for the year Related and consequent resolutions.

BFF Bank S.p.A.

Via Domenichino 5 - 20149 Milan

Tax code and VAT n. 07960110158

** *** **

Dear Shareholders,

The Board of Directors has convened you, in ordinary session, on Thursday, 18 April 2024 at 11.00 a.m. (the "**Shareholders' Meeting**"), conventionally at the registered office of BFF Bank S.p.A. (the "**Company**" or the "**Bank**" or "**BFF**") in Milan, Via Domenichino no. 5 (the "Registered Office"), in a single call, to approve, among other things, the proposed allocation of the profit for the year.

It should be noted that Article 26 introduced by the Omnibus Decree, published in the Official Gazette on 10 August 2023, and subsequently converted into law, with amendments, by the measure "Law no. 136 of 9 October 2023 - Conversion into law, with amendments, of Decree-Law no. 104, containing urgent provisions for the protection of users, on economic and financial activities and strategic investments" (the "Tax" and the "Measure"), effective as of 10 October 2023, introduced the tax on Banks' extra-profits, calculated on the increase in the interest margin.

Such tax, which is extraordinary in nature, is determined by applying a rate equal to 40% on the amount of the interest margin included in item 30 of the profit and loss account, prepared in accordance with the formats approved by the Bank of Italy, relating to the financial year 2023, which exceeds the same margin by at least 10% in the financial year 2022 and, the amount so calculated, in any case, may not exceed a portion equal to 0.26% of the total amount of the risk exposure on an individual basis, with reference to the closing date of the financial year 2022.

The extraordinary tax is paid by the end of the sixth month following the end of the financial year 2023 and is not deductible for income tax and regional business tax purposes.

In lieu of payment, banks may allocate, upon approval of the financial statements for the financial year 2023, to a non-distributable reserve identified for this purpose, an amount equal to two and a half times the tax calculated as specified above. This reserve meets the conditions set out in Regulation (EU) No 575/2013 for its eligibility as an element of primary tier 1 capital.

It is specified that, with reference to the effects deriving from the law, the changes introduced

by the extraordinary tax have been considered as an "adjusting event" pursuant to IAS 10; the nature of the tax falls within the scope of application of IFRIC 21 as it is applied on the net interest margin, therefore the recognition of the tax in the income statement is required at the time the binding event occurs that causes the liability to arise: in the case at hand, the binding fact is not only the achievement of a net interest margin above the threshold identified by law (equal to 0.26 per cent of the total amount of the risk exposure on an individual basis, as at the closing date of the 2022 financial year), but also the Bank's decision not to settle the tax and to set up the specific non-distributable reserve.

All this being said, for BFF, the Tax would correspond to 0.26% of the total Risk Weighted Assets relating to the individual balance sheet as of 31 December 2022 (including all first-pillar risks as defined pursuant to paragraphs 3 and 4 of Article 92 of Regulation (EU) No. 575/2013) and is equal to Euro 9.76 million; Alternatively, the amount of the non-distributable reserve is Euro 24.4 million.

Therefore, the potential scenarios hypothesized by the Bank and submitted to the Board of Directors were as follows:

(i) the possible payment of the tax would have a direct impact on the Group's reported profit in the amount of 9.8 mln in 2023 (and not on adjusted considering the extraordinary nature of the manoeuvre), with a consequent decrease in the Group's reserves subsequently reinstated in 2024 to comply with the dividend policy.

ii) the allocation to non-distributable reserves in the amount of 24.4 mln of the profit for the period, with no impact - calculated from the 2023-2028 Business Plan figures - on the group's dividends, considering the possibility of distributing other profit reserves that are now widely available.

The Board of Directors has resolved to propose to the present Shareholders' Meeting, called to approve the financial statements for the year 2023, the proposal to allocate, starting from the 2023 net profit (or, in case of incapacity, from other available reserves), to non-distributable reserves the amount of 24.4 mln, corresponding to an amount equal to two and a half times the extraordinary tax calculated on the increase in net interest income.

The Company's financial statements for the year ended 31 December 2023, which are to be approved at the Shareholders' Meeting, show a profit of Euro 131,360,488, which we propose to allocate as follows:

i) Euro 203,417 to the Legal Reserve (to bring the reserve to 20% of the share capital as of today's date)

ii) Euro 24,402,280 to the Retained Earnings Reserve (corresponding to two and a half times the extraordinary tax calculated on the increase in net interest income - the so-called Extraordinary Tax on Banks' Extra Profits)

iii) Euro 106,754,790 to Shareholders, of which Euro 52,303,766 was to be distributed in April 2024 and of which Euro 54,451,025 had already been distributed in September 2023 in the form of interim dividends.

The amount of Euro 106,754,790 indicated above added to (i) Euro 48,910,228 expected to be distributed from the available portion of the Retained Earnings Reserve, and (ii) Euro 27,487,351 already withdrawn from the available portion of the Retained Earnings Reserve and distributed in September 2023 in the form of interim dividends, would bring the total amount of dividends distributed in the 2023 financial year to Euro 183,152,369 corresponding to the Group's normalised consolidated net profit.

Shareholders will therefore receive a dividend (balance) of Euro 0.541 for each of the 187,218,044 shares.

It should also be noted that American-style option contracts with BFF shares as underlying are still admitted for trading on the Derivatives Market (IDEM). In light of the foregoing and in compliance with the provisions of the Instructions to the Rules of the Markets Organised and Managed by Borsa Italiana (Title IA.2, Section IA.2.1, Art. IA.2.1.3), the ex-dividend date for dividends paid by companies issuing shares comprising the FTSE MIB index or underlying derivative contracts on shares traded on the IDEM market is set to coincide with the first trading day following the third Friday of each calendar month.

Therefore, considering the above, the month scheduled for the ex-dividend date of any dividend based on the results of the 2023 financial year will be April 2024 with ex-dividend date (no. 9) on 22 April 2024 (so-called ex-date). Pursuant to Article 83-terdecies of Legislative Decree No. 58 of 24 February 1998, as amended and supplemented (the "Consolidated Law on Finance"), the entitlement to the payment of the dividend is determined with reference to the evidence in the accounts of the intermediary referred to in Article 83-quater, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of 23 April 2024 (the "record date"). The payment of the aforesaid dividend, gross of withholding taxes, is scheduled for 24 April 2024 (the so-called "payment date")

* * *

We submit the following proposed resolution for your approval:

"The Shareholders' Meeting of BFF Bank S.p.A., having examined the illustrative report of the Board of Directors,

resolved

- i)* to allocate Euro 203,417 to the Legal Reserve;
- ii)* to allocate Euro 24,402,280 to the "Retained Earnings Reserve;
- iii)* to allocate the portion of the net profit for the year available, corresponding to Euro 52,303,766, to be distributed to the Shareholders;
- iv)* iv) to approve the distribution of part of the Retained Earnings Reserve recorded in the Bank's financial statements as of 31 December 2023 in the amount of Euro 48,910,228. The sum of the amount referred to in point iii) and point iv) of this resolution, corresponds, before legal withholdings, to Euro 0.541 for each of the 187,218,044 ordinary shares in circulation on the ex-dividend date (no. 9) on 22 April 2024 (so-called ex-date). This dividend includes the portion attributable to any treasury shares held by the company on the "record date". Pursuant to Article 83-terdecies of Legislative Decree no. 58 of 24 February 1998 (Consolidated Law on Finance), the entitlement to the payment of the dividend is determined with reference to the evidence in the accounts of the intermediary referred to in Article 83-quater, paragraph 3, of the Consolidated Law on Finance, at the end of the accounting day of 23 April 2024 (so-called record date)
- v)* to pay the aforesaid dividend from 24 April 2024 (so-called payment date). Payment will be made through the authorized intermediaries with whom the shares are registered in the Monte Titoli system.

* * *

For the Board of Directors
THE CHAIRMAN
(Salvatore Messina)

Milan, 7 March 2024