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## Off-Season Engagement with shareholders

*Follow up to AGM'24, getting ready to AGM25*

*November 2024*

# Agenda

## Our commitment to shareholders

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## Governance update

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## New remuneration framework: pipeline and proposals

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- STI
- New Long-Term Plans: proposal

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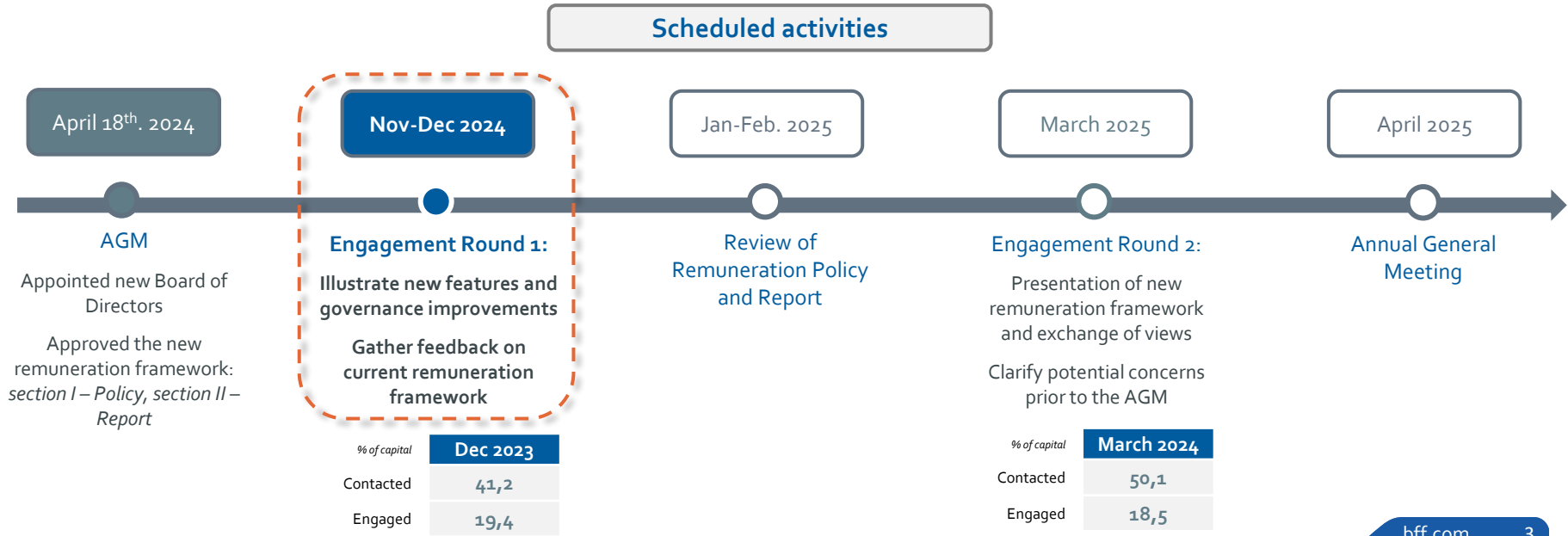
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## Annex

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# BFF constantly engages in a transparent dialogue with shareholders

- In continuity with the previous years, BFF is conducting an extensive off-season engagement with shareholders to receive feedbacks on the current remuneration framework and to illustrate the preliminary directions of change of next year's remuneration.
- BFF's investors and proxy advisors feedbacks are useful input for the continuous internal evaluation and review process and help to enhance awareness on the Group's remuneration practices.





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## Governance updates

# Governance update since last AGM (April 18<sup>th</sup>, 2024) strengthening of our Governance framework

*AGM on April 18<sup>th</sup> appointed the new Board of Directors for the financial years 2024-2026.*

## Board Composition

- New **independent** Chair and Vice-Chair
- **56%** renewal rate
- **78%** overall independence increase from 67%
- **22%** minority representativeness increase from 11%

## Board Committees

- New independent **RemCo Chair** representing **minority** shareholders
- **67% of RPT** members represent **minority** shareholders










## Board Skills

Overall strengthened Board skills in the following BFF business areas:

- **Factoring & Lending**
- **Payments Services**
- **Securities Services**

# A new strengthened Board of directors' composition

## ROLES AND COMPOSITION

| Name / Roles  | Year of birth | Nationality      | First appointment | Independent Director * | Minority List | Risk and control committee | Appointment committee | Remuneration committee | Related party committee | Board KPIs                                 |
|---|---------------|------------------|-------------------|------------------------|---------------|----------------------------|-----------------------|------------------------|-------------------------|--|
| <b>NEW</b>  <b>Ranieri De Marchis</b><br><i>Chair, non-executive</i> | 1961          | Italian          | 2024              | ✓                      |               |                            |                       |                        |                         | <b>56%</b><br>Renewal rate                 |
|  <b>Massimiliano Belingheri</b><br><i>Chief Executive Officer</i>    | 1974          | Italian          | 2006              |                        |               |                            |                       |                        |                         | <b>78%</b><br>Independent Directors        |
|  <b>Anna Kunkl</b><br><i>Vice-Chair, non-executive</i>               | 1972          | Italian          | 2022              | ✓                      |               |                            |                       |                        | <b>Chair</b>            | <b>44%</b><br>Female gender representation |
|  <b>Domenico Gammaldi</b><br><i>Non-executive</i>                    | 1953          | Italian          | 2021              | ✓                      |               | <b>Chair</b>               |                       | <b>Member</b>          |                         | <b>58</b><br>Average Age                   |
|  <b>Piotr Stepniak</b><br><i>Non-executive</i>                       | 1963          | Polish           | 2021              |                        |               | <b>Member</b>              |                       |                        |                         | <b>22%</b><br>Minority representatives     |
|  <b>Alexia Ackermann</b><br><i>Non-executive</i>                     | 1973          | French           | 2024              | ✓                      |               | <b>Member</b>              | <b>Member</b>         |                        |                         | <b>3 years</b><br>Average Tenure           |
|  <b>Mimi Kung</b><br><i>Non-executive</i>                            | 1965          | Taiwan, American | 2024              | ✓                      |               |                            | <b>Chair</b>          | <b>Member</b>          |                         |  |
|  <b>Guido Cutillo</b><br><i>Non-executive</i>                        | 1972          | Italian          | 2024              | ✓                      | ✓             |                            |                       | <b>Chair</b>           | <b>Member</b>           |  |
|  <b>Susana Mac Eachen</b><br><i>Non-executive</i>                   | 1965          | Mexican          | 2024              | ✓                      | ✓             |                            | <b>Member</b>         |                        | <b>Member</b>           |  |

# Strong independence and diversity of key committees (1/2)

## Remuneration Committee

*Chairman from minority list*

NEW

**Guido Cutillo**  
Chair, Independent,  
Minority representative



NEW

**Mimi Kung**  
Member, Independent

**Domenico Gammaldi**  
Member, Independent

## Nomination Committee

NEW

**Mimi Kung**  
Chair, Independent



NEW

**Alexia Ackermann**  
Member, Independent

**Susana Mac Eachen**  
Member, Independent,  
Minority representative

NEW

### Key responsibilities:

- Authority to advise and recommend in the matter of remuneration of Material Risk Taker
- Determining the criteria for the remuneration of all "key personnel" as identified in the Policy of Remuneration
- Verification of the effectiveness of remuneration policy

### Key responsibilities:

- Appointment and co-optation of Board Members
- Self-appraisal of the Board of Directors
- Verification of the Board Member requirements
- Definition of succession plans

# Strong independence and diversity of key committees (2/2)

## Risk and Control Committee

NEW  
ROLE

**Domenico Gammaldi**  
Chair, Independent



NEW

**Alexia Ackermann**  
Member, Independent

**Piotr Stepniak**  
Member

### Key responsibilities:

- ▶ Supporting role towards the Board of Directors in the matter of risks and Internal Control System

## Related Party Committee

*Majority of representatives from minority list*

**Anna Kunki**  
Chair, Independent



NEW

**Guido Cutillo**  
Member, Independent,  
Minority representative

**Susana Mac Eachen**  
Member, Independent,  
Minority representative

NEW

### Key responsibilities:

- ▶ Setting out in the BFF Banking Group's Regulation for the management of transactions of parties with a conflict of interest (the "RPT Regulation"), as provided for in compliance with the applicable regulatory provisions





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## Regulatory and business updates

# Short recap of Bank of Italy compliance findings...

29-Apr-24

- BFF received the results of Bank of Italy inspection, providing an interpretation of the new Definition of Default criteria<sup>(1)</sup> different from that adopted by BFF, formalizing a compliance finding.
- Bol requested to temporarily refrain from:
  - i. the distribution of profits from FY24 or other equity
  - ii. the payment of the variable remuneration and
  - iii. the further expansion abroad by opening new branches or expanding into new countries under freedom of services.These provisions do not apply to payment of interest on its AT1 securities.

11-Jul-24

- The Board of Directors approved the submission to Bank of Italy of the Bank's determinations:
  - **on credit reclassification, governance and remuneration (page 11)**
- The Board of Directors confirmed that the economic and financial outlook remains substantially unchanged, **and confirmed 2026 financial targets (page 12)**.

# BFF filed its response to Bank of Italy findings on credit reclassification, governance and remuneration



## Credit reclassification

Applied reclassification for prudential purposes to the loan portfolio generating incremental Past Due of €1,429m and incremental RWAs of €1,801m as of 30-Jun-24.



- ✓ Reclassified with 1H24 results and confirmed financial targets to 2026



## Governance

Governance matters addressed by BFF by means of an action plan approved by the Bank's corporate bodies.



- 🔄 Governance action plan to be fully implemented by year end









## Remuneration

Measures undertaken to remove the compliance findings









- ✓ Remuneration findings fully addressed by BFF at the end of May-24

# Economic and financial outlook remains substantially unchanged, confirmed 2026 financial targets

|   |   | 2023  |
|---|---|-------|
| Adjusted Net Profit <sup>(1)</sup> (€m) |  | 183.2 |
| EPS (€ per share)                       |  | 0.98  |
| Cumulated dividends (FY23-26) (€m)      |  | 183.2 |
| RoTE <sup>(3)</sup> (%)                 |  | 41%   |
| CET1 ratio (%)                          |  | 14.2% |
| Cost/Income (%)                         |  | 41%   |



## 2026 Business Plan targets

|  |   |
|--|---|
| 255 – 265  |  |
| 1.37 – 1.43 <sup>(2)</sup>   |  |
| >720   |  |
| >50% (ex. accrual rate step-up)<br>>40% (in. accrual rate step-up) |  |
| >12%   |  |
| <40%   |  |

(1) Net income reported less extraordinary expenses including the portion of stock options which is accounted through P&L; (2) €1.34-1.39 p.s. fully diluted, based on maximum dilution related to all outstanding stock-option plans; (3) RoTE: Adj. Net Profit / (Year-end Equity book value – Reported Net Income + Interim dividend - AT1 – Year End Intangibles).



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## New remuneration framework: pipeline and initial hypothesis

# Remuneration policy – improvements in the pipeline

*Key recent implementations in BFF's remuneration framework and improvements planned for 2025.*

## 2023 AGM

- ✓ Multiple ESG KPIs into CEO's STI scorecard.
- ✓ Disclosure of CEO Pay Mix and CEO Pay-Ratio.
- ✓ Disclosure of STI payout thresholds (min/target/max. expressed in % of fixed pay).
- ✓ Report on engagement activity with investors and proxy advisors.
- ✓ Pay-for-performance model with disclosure of related peer group and benchmark assessment.
- ✓ Removal of the trigger condition for CEO severance on regulatory changes.
- ✓ Enhancement of the ESG matrix with double materiality.

## 2024 AGM

- ✓ Introduction of the Shareholder Guidelines for the CEO and Managers with Strategic Responsibilities.
- ✓ Removal of the trigger condition for CEO severance in the event of non-renewal of the office of CEO upon expiry of the mandate.
- ✓ No change of severance as effect of CEO pay review, including the absolute limit.
- ✓ Increased maturity term of CEO's non-compete agreement, as a risk mitigant.
- ✓ Enhanced disclosure:
  - ✓ KPIs description for variable incentives.
  - ✓ New section to illustrate financial results and ESG ratings.
  - ✓ Results from engagement activities and related timeline through the year.
  - ✓ New table with Policy improvements year by year.
- ✓ Full transparency on new positioning of CEO pay.

drafting

## 2025 AGM

- ✓ **Expt. launch of new 2025 Long-Term Incentive Plan, currently under definition.**
- ✓ **Expt. Employee Stock Ownership Plan in 2025, to celebrate Company's 40<sup>th</sup> anniversary. Impact ca. €2m one off for approximately 180K shares.**
- ✓ Further improvement of ex-post and ex-ante disclosure on variable pay and performance to align with best practice.

Also note:

- ✓ There will be attention to shareholder dilution from all outstanding equity incentive plans to remain below 5% of share capital.

# Remuneration framework 2025, STI

Approved 2024 STI plan and feedback for 2025

## Gate criteria

Current STI 2024

| KPIs  | Minimum Requirements          |
|---|-------------------------------|
| Liquidity Coverage Ratio (LCR)                      | ≥ risk tolerance (as per RAF) |
| Total Capital Ratio (TCR)                           | ≥ risk tolerance (as per RAF) |
| EBTDA <sup>RA</sup>                                 | > 0                           |
| Additional gate                                     |                               |
| EBTDA <sup>RA</sup> / Target EBTDA <sup>RA</sup> ** | ≥ 100%                        |



## 2025 BFF main orientation

- Guarantee Pay For Performance
- Link with profitability
- Attention to risk and capital absorption
- Ensure sustainable growth

## 2025 Engagement feedback

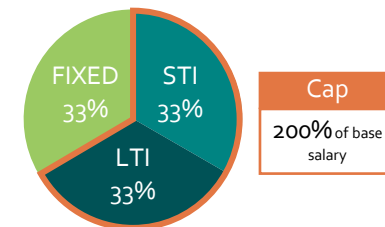
Our main objective is to gather insights on:

- STI Functioning
- Consistent KPIs and metrics
- Balance scorecard weighting

## Performance criteria

| Type      | KPIs                | Weight at target | Minimum  | Target   | Maximum   | Cap *  |
|-----------|---------------------|------------------|--|--|---|--|
| Financial | EBTDA <sup>RA</sup> | 70%              | <Budget  | =Budget  | 110% Budget   | 1: Max. 90% of base salary                                       |
| ESG       | ESG Rating          | 20%              | Maintain current coverage/rating   | Increase coverage by 1 or increase rating  | Increase coverage by 2 or increase 2 ratings  | 2: Max. 50% of base salary<br><br>1+2 = Max. 100% of base salary |
| ESG       | Gender Pay Gap      | 15%              | <ul style="list-style-type: none"> <li>• Reach the target in 1/3 of the cluster</li> <li>• at least 80% of the overall population</li> </ul> | <ul style="list-style-type: none"> <li>• Reach the target in 2/3 of the cluster</li> <li>• at least 80% of the overall population</li> </ul> | <ul style="list-style-type: none"> <li>• Reach the target in the cluster</li> <li>• at least 80% of the overall population</li> </ul> |  |
| ESG       | Social Bonds        | 15%              | € 250 m  | € 300 m  | € 350 m   |  |

## CEO Pay Mix



**Other** 60% of bonus is deferred over 5 years, 51% is paid in shares. Bonus is subject to malus and clawback clauses.

(\*) A maximum limit applies to the performance of the STI, capped at 100% of the base salary. In addition, the variable remuneration cannot exceed 200% of the base salary.

(\*\*) Target set at budget level.

# Remuneration framework 2025, New LTI

## 2022 – 2024 LTI plan and objectives for the 2025 LTI

Current LTI 2022 – 2024, Stock option (Cash & Equity settled) based

| Type      | KPIs                  | Weight | Minimum          | Target         | Maximum          |
|-----------|-----------------------|--------|------------------|----------------|------------------|
| Financial | EBTDA <sup>RA</sup>   | 50%    | 90% Target 2025  | Target 2025    | 110% Target 2025 |
| Financial | EPS                   | 20%    | 90% Target 2025  | Target 2025    | 110% Target 2025 |
| Financial | C/I                   | 20%    | 110% Target 2025 | Target 2025    | 90% Target 2025  |
| ESG       | Carbon Footprint      | 5%     | 46,7% vs. 2022   | 32,4% vs. 2022 | 18,1% vs. 2022   |
| ESG       | Customer Satisfaction | 5%     | 90%              | 95%            | 100%             |

For each objective, the number of **options accrues** as follows (the number of options is defined by linear interpolation):

- Threshold level: 50% of target options.
- Target level: 100% of target options.
- Max level: 150% of target options.

In any case the total amount of option vested cannot be higher than the 100% of the allocated options.

**Max Award:** 200% of fixed remuneration in aggregate with other variable remuneration.

**Recipients:** The Plan is reserved for employees and executive directors of the Company, GCEO included.



### 2025 BFF main orientation

- Launch a new 2025-2027 LTI for Executive Directors, senior management and employees
- Strong retention mechanism
- Alignment of long-term interests between the Bank, its employees and shareholders, through metrics to be discussed in engagement
- Sustainability objectives will be "material" to the business and aligned with BFF transition plan<sup>(1)</sup>

### 2025 Engagement feedback

**Our main objective is to gather insights on:**

- Payment instrument
- Consistent KPIs and metrics
- Balance scorecard weighting



# Remuneration framework 2025, Employee Stock Ownership Plan

- To celebrate BFF's 40th **anniversary**, the bank is considering to structure a share ownership plan for all categories of staff
- The plan will include the possibility of **participating** in the bank's **capital**
- The assignment of financial instruments in the plan has a positive (although not materially significant) impact on the shareholders' equity.
- The stock granted – in Italy – do not form taxable income within the annual limit of 2,065 €.
- Possible assignment of stock grant at no cost to the entire Bank population (approximately 850 people) with a maximum value of 2,065€ per person (206 shares at €10 per share) totaling around 180K shares for less than €2m



## 2025 BFF main orientation

Ongoing investment in the Group's employees:

- direct involvement in achieving Company's objectives
- financial awareness, risk management culture and entrepreneurial spirit

## 2025 Engagement feedback

**Our main objective is to gather insights on:**

- Investors' opinion on the plan structure
- Preferences on specific features, such as capital participation methods and objectives



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## Annex

# Full commitment on ESG strategy: “E”

## Ever more a BFF like no other Plan

The Plan "Ever more a bank like no other," unveiled in June 2023, among other things confirms this commitment, declaring equally challenging goals for the Plan's time horizon.

### ENVIRONMENT



| Area  | Ambition   | Target   |
|---|--|--|
| <b>CLIMATE RISKS AND THE CREDIT PROCESS</b> | Integrate climate risks into the Group's business, operations, and credit processes  | Full integration of climate risks and environmental issues in the organization by 2025                         |
| <b>TOWARDS CARBON NEUTRALITY</b>            | Improve the environmental performance of the Group's properties in terms of energy and material consumption and mitigation and offsetting of CO <sub>2</sub> emissions | More than 80% of employees in LEED buildings – by 2025   |
|   |  | Relocate the headquarters to a green building by 2024  |
|   |  | Maintenance of low levels of paper consumption   |
|   |  | Elimination of own emissions (Scopes 1 and 2) – by 2026  |
| <b>ENVIRONMENTAL DISCLOSURE</b>             | Ensure transparent reporting of the Group's sustainability performance   | Alignment with the recommendations of the Task Force on Climate - Related Financial Disclosures (TCFD) by 2026 |

# Full commitment on ESG strategy: "S"

## Ever more a BFF like no other Plan

The Plan "Ever more a bank like no other," unveiled in June 2023, among other things confirms this commitment, declaring equally challenging goals for the Plan's time horizon.

### SOCIAL



| Area                                      | Ambition   | Target  |
|---|--|---|
| <b>DIVERSIFICATION OF THE TALENT POOL</b> | Promote diversity within the work environment  | Increase the number of employees belonging to underrepresented groups (e.g., gender, nationality, age) in key roles |
| <b>GENDER PAY GAP</b>                     | Promote diversity within the work environment  | Reduction of the gender pay gap with specific target provided for certain figures in the Remuneration Policy        |
| <b>DISTRIBUTION OF THE VALUE CREATED</b>  | Continue to distribute value created in the organization through the LTI program                                 | –   |
| <b>FAST FORWARD FOUNDATION</b>            | Promote the new purpose of the Foundation, supporting the execution of the strategy, increasing its contribution | –   |
| <b>SOCIAL BOND</b>                        | Fund projects with high social impact, in keeping with the Group's ESG strategy                                  | Issued €600m od social bond.  |

# Full commitment on ESG strategy: “G”

## *Ever more a BFF like no other Plan*

The Plan "Ever more a bank like no other," unveiled in June 2023, among other things confirms this commitment, declaring equally challenging goals for the Plan's time horizon.

### GOVERNANCE



| Area                                      | Ambition  | Target  |
|---|---|---|
| <b>ESG TRAINING OF TOP MANAGEMENT</b>     | Promote the culture of sustainability within the Board and raise top management's awareness of ESG issues                               | Delivery of specific ESG-related training sessions for the Board of Directors             |
| <b>BUSINESS ETHICS</b>                    | Monitor, measure and mitigate negative impacts related to the Group's operations, in accordance with regulatory developments            | Review of the procurement process in order to include ESG metrics in supplier evaluations |
| <b>ACCOUNTABILITY</b>                     | Obtain ESG Ratings with the goal of aligning with best market practices and improving sustainability performance                        | Maintain a low-risk ESG profile   |
| <b>PRINCIPLES FOR RESPONSIBLE BANKING</b> | Join international initiatives and/or alliances with the aim of improving sustainability performance and ensuring transparent reporting | Endorsement of PRBs   |
| <b>POLICY</b>                             | Formalize the good sustainable practices adopted by the Group in order to maintain high levels of transparency                          | Sustainability and Environmental Policy for the entire Group.                             |

# Update on double materiality

## Material topics 2023 for BFF Bank

- Innovation and technology

### MATERIALITY OF IMPACT

- Privacy and data security
- Human resources management
- Customer satisfaction and transparency of information about products and services
- Protection of labor and workers' rights

### IMPACT AND FINANCIAL MATERIALITY

- ▶ Economic performance
- ▶ Climate change and the transition to a sustainable economy
- ▶ Business ethics and fighting corruption
- ▶ Supply chain
- ▶ Governance and decision-making processes
- ▶ Occupational health and safety
- ▶ Diversity, inclusion, equality of opportunity and remuneration
- ▶ Human rights

### CORE TOPICS

- Energy

### FINANCIAL MATERIALITY

In 2022, on a voluntary basis, the Group had carried out a preliminary financial materiality determination exercise, in advance of the application of the 'double materiality' provided for by the CSRD.

In 2023, in response to changes in its internal and external environment, BFF initiated a process of updating

the list of identified impacts from an "Inside-Out" perspective.

As a result of the updating of the materiality analysis, there were no changes in the material topics identified in 2022.



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