BFF Banking Group announces 2028 strategy update "Ever more *a bank like no other*" and 2026 financial targets

Milan, 27th June 2023 -Today the Board of Directors ("**BFF**" or the "**Bank**") approved the five-year BFF strategic plan to 2028 "**Ever more *a bank like no other***" ("**Plan**") and the three-year financial targets ("**2026 Financial Targets**").

BFF 2028 Strategic Goals

- Develop our market leading core businesses:
  - *Factoring and Lending*, develop the largest acquirer of government receivables in Europe in a growing and underpenetrated market, by*:*
    - strongly growing our customer footprint in existing and new markets, also by opening of French branch;
    - entrenching our operational competitive advantage also through our new Factoring IT system and further efficiencies in legal collection activities;
  - *Transaction Services:* further strengthen the role of "*Banca di Secondo Livello*"[1], while generating steady revenues and ample operational deposits to the Group:
    - *Payments:* the leading independent Italian payment intermediary for banks and Payment Service Providers ("PSPs")[2], capitalising on the shift to electronic payments;
    - *Securities Services:* the only Italian Bank providing the entire spectrum of customized securities and depositary bank services to domestic banks and asset managers, in a secular growth market.
- Invest further in our operating infrastructure to support growth opportunities, managing operational risks and extracting further efficiencies.
- Continue to provide opportunities for growth and development to our team, maintaining our strong alignment of incentives with our stakeholders.
- Further optimise funding and capital.
- Provide market leading capital and dividend returns to shareholders, with capital above 12% CET1 target paid out to shareholders.
- Maintain the Group's low risk profile, efficiently managing past due exposures and calendar provisioning.

[1] Second level bank, i.e. a bank offering services to other banks.
[2] PSPs: Payment Service Providers, a third-party company that allows businesses to accept electronic payments, such as credit cards and debit cards payments.

- Increase further our positive social, environmental and stakeholder impact, together with net zero targets and a doubling of investments in social impact initiatives.

BFF 2026 sustainable growth targets

- Further improved **Cost/Income Ratio**, <40%,
- Solid capital ratios: **CET1 Ratio Target** ≥ 12%,
- Market leading **RoTE**: >50%,
- Substantial shareholder returns:
  - **Adjusted Net Profit**[3] growth of c. 78% vs 2022, at €255-€265m. 2026 **EPS**: €1.37-€1.43 (€1.34-€1.39 fully diluted)[4],
  - Over €720m or c. 40% of current market capitalization to be distributed in **dividends** to 2026,
- Net Zero **Carbon emission**[5],
- Double the investment in **social impact initiatives**,
- >80% of employees in **LEED[6] certified buildings** by 2026.

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The Plan will be presented on Thursday June 29th at 9:30 a.m. WET (10:30 a.m. CET) in London at "Rosewood Hotel", 252 High Holborn, London WC1V 7EN, United Kingdom. To attend this event in presence or via webcast, please register at the following Registration Link.

BFF 2028 "Ever more a Bank Like No Other" presentation will be available on BFF Group's website www.bffgroup.com in the *Investors > Presentations* section ahead of the presentation.

Massimiliano Belingheri, CEO, commented: "*Our 2028 Strategic plan builds on our strengths and on an attractive market backdrop to continue to deliver strong returns to our shareholder, with Adjusted Net Income growing by over 78% to 2026 and expected dividends of 40% of our current market cap. We aim to further strengthen our leadership in specialty finance niches in Europe, by leveraging on our primary position in factoring to the Public Administration and Healthcare suppliers and our unique role as service bank to other banks and financial institutions in Italy. We are committed to achieve this by investing in our business and our people, operating with honesty and transparency, 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*

[3] Net income reported less extraordinary expenses and less stock option costs accounted through P&L.
[4] Based on maximum dilution related to all outstanding stock-option plans.
[5] Including scope 1 and 2 emissions.
[6] LEED, or Leadership in Energy and Environmental Design, is a rating system developed by the U.S. Green Building Council to evaluate the environmental performance of a building.

the corporate governance best practices for public companies. We are a strongly sustainable business, with a unique ability to reward our shareholders, our people, our communities".

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New plan builds on consistently successful value creation story and on early delivery of "BFF 2023" plan

BFF's growth path is built around a long-term history of superior value creation: from its incorporation in 1985, with an initial investment of only €0.26m, BFF has distributed c. €1,100m of dividends and currently has a market value of c. €1,800m.

BFF delivered consistent profit growth over the last ten years (2013-23 CAGR +15%) and, since its 2017 IPO, a **Total Shareholders Return** of over 250%[7], significantly above the market.

The majority of "BFF 2023" plan's financial targets has been hit one year ahead.

A new more BFF-favourable context, along with sizable and underserved factoring market and operational leverage are driving BFF 2028 "*growth like no other*"

A significantly different external context and unexploited business opportunities are the main pillars of BFF long term growth. Positive interest rates, expected to remain at a higher level compared to the last 5 years, benefit BFF's profitability, particularly through a reset of the Late Payment Interests charged to *Factoring* debtors. Lower liquidity, surging inflation, and potentially increasing DSOs[8] are expected to drive *Factoring & Lending* ("**F&L**") loan volumes.

BFF presents significant off balance-sheet reserves and embedded deferred profitability due to our accounting policy of Late Payment Interest ("**LPIs**") and Recovery Cost Rights ("*RR*")[9]. LPI's and RR off-balance sheet reserves, a good portion of which will convert into profits in the medium term, amount to a combined €548m at the end of 1Q23. Higher LPIs rates and volumes growth will further increase them.

BFF has a leadership position in markets with good growth opportunities: i) *Factoring & Lending* with a scarcely penetrated c. €1 trillion/year government invoice market, ii) *Payments*, thanks to the structural shift to digital payments in Italy and iii) *Securities Services* with growth opportunities in Italian Pension Funds and Alternative Investment Funds ("**AIF**") segments.

BFF's growth builds on our operating leverage across all divisions, our diversified and ample funding, and our low-risk business model, with loan book almost entirely towards Public Administration with low capital absorption.

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[7] Market data updated from Factset as of 23rd June 2023.
[8] Days Sales Outstanding.
[9] According to Late Payment Directive (europa.eu) n° 2011/7/EU (LPD) invoices overdue by Public Administration accrue penalty of 8% + Central Bank refinancing rate (Late Payment Interest or "LPI"), plus compensation for recovery costs rights ("RR").

BFF's disciplined M&A approach remains strongly connected to the business, to accelerate growth and promote diversification, with the aim of creating value while preserving the low risk profile of the Group.

I. MAIN REVENUE GROWTH OPPORTUNITIES

1) Factoring & Lending

BFF is the leader in an underserved c. €1 trillion/year government invoices market. Non-recourse factoring penetration is very scarce, with BFF's estimated to be lower than 2%. In this context, a significant grow potential is expected from: i) public expenditure and investments' secular growth (CAGR of c. 5% over the 2022-26 period) and ii) growth in customer base, thanks to BFF's entrenched competitive advantage in a market underpinned by the EU Late Payment Directive[10]. Further upside may arise from international expansion in new geographies. **Loan book** is projected to grow at 22-26 CAGR of over 10%, with **F&L Revenues**, more than doubling from 2022 to 2026, mainly on the back of higher gross interest yields and volumes.

2) Payments

Payments provide steady revenues inflow and important liquidity, with volume growth potential driven by the progressive alignment of Italian digital payments penetration to the European level. Growth is also underpinned by the Italian NRRP "National Recovery and Resilience Plan", new regulations and new technologies, counterbalanced by fee reductions. ***Payment* Revenues** growth is expected in the low single digit 22-26 CAGR area.

3) Securities Services

BFF is the national champion in Italy in the *Securities Services* industry, offering customized services for Italian banks and asset managers, with a leadership position in Pension Funds. In specific niches (Pension Funds, AIFs, but also smaller Asset Management companies), where local presence is a competitive advantage, BFF growth opportunity is based also on i) a new regulation requiring *Casse*[11] to appoint a Depositary Bank, opening up a market worth c. €110bn in Asset under Management, ii) increase penetration among AIFs, iii) full roll-out of value-added services. ***Securities Services* Revenues** are expected to grow at high single digit 22-26 CAGR[12]. *Securities Services* are an important source of stable and operational deposits for BFF and provide a steady revenue inflow with a mostly fixed cost base.

[10] Late Payment Directive (europa.eu) currently under a public consultation process which should be finalized by YE23 (see also the EU Call to Paper).
[11] First pillar retirement funds for liberal professions
[12] Calculated excluding Arca in FY22.

II. OPERATIONAL EFFICIENCY

BFF will continue to invest in its operating infrastructure to support growth opportunities, managing operational risks and to optimise its structure.

Cost/income ratio is expected to decrease below 40% in 2026, despite those investments. BFF is planning **key strategic operational initiatives** to improve the growth trajectory and risk management such as:

- a new IT Factoring system,
- the opening of a branch in France,
- the expansion of online-deposits platform in additional markets,
- the roll out of AIRB (internal model for credit risk calculation),
- further efficiency in legal collection activities.

III. BALANCE SHEET MANAGEMENT: FUNDING, LIQUIDITY, RISK, CAPITAL

BFF **Balance Sheet** is expected to remain stable vs. FY22 (c. €13bn), with strong growth in **Loans & Receivables** being counterbalanced by the amortisation of the **HTC[13] Government Bond portfolio.** At YE26, c. 80% of HTC portfolio is expected to be floater, with an estimated yield of 3.76% and a spread of +0.94%, while fixed-income portfolio will have an estimated fixed yield of 0.70%.

BFF aims to maintain a diversified funding base and continue to access as many funding channels as possible.

Operational deposits from *Payments* and *Securities Services* are expected to remain the main source of funding. BFF will continue to access **online deposits**, with opportunities to grow in new countries. Approximately €300-500m of **bonds** are planned to be issued, supporting MREL, liquidity ratios and leverage ratios requirements. **Passive Repos**[14], utilized to optimize Group liquidity by refinancing part of the HTC portfolio, are expected to significantly decrease in size.

Cost of Risk is expected to remain low, thanks to a loan book portfolio almost entirely exposed to the public sector (95% at YE22). Increase in **NPE** is expected to be in line with growing loan book and is expected to be almost entirely towards the public sector and therefore technical in nature. **NPL ratio** 2023-26 is expected to remain substantially constant on the F&L portfolio size compared to YE22. NPLs are expected to be almost entirely towards municipalities in conservatorship[15]. Capital deductions from **Calendar Provisioning** are conservatively estimated to be around €10m *per annum* (vs. €1m estimated in 2023).

[13] HTC: Held to Collect.
[14] Refinancing operations related to Italian government portfolio.
[15] Exposures are currently classified NPLs by regulation despite BFF being legally entitled to receive 100% of the capital and LPIs at the end of the process.

The Group has a strong capital position, with significant excess capital allowing RWAs to grow up to c. €1.1bn, while paying until then the entirety of its Adjusted Net Income as dividends. Given the high RoTE (39% YE22), further capital needed for loan book growth will be entirely funded through retained earnings, while maintaining an attractive absolute dividend.

IV. UPDATED DIVIDEND POLICY

In fact, BFF's dividend policy aims to self-fund the Group growth and distribute the capital in excess of its needs to the shareholders, committing to pay to shareholders of all the earning generated in a year, in excess of a target capital ratio.

The target capital ratio has been moved from 15% Total Capital Ratio ("**TCR**") to 12% of CET1 Ratio[16] , to align it with other banks main capital target. Distribution of dividends remains as before subject to the fulfillment of all the regulatory capital requirements.

Dividend payments are confirmed twice a year, in August and April, based on 1H and full year Adjusted Net Income.

V. SUSTAINABLE AND RESPONSIBLE GROWTH

BFF will go further in its sustainability commitments during its plan horizon, with a continued focus on making a positive social, environmental and stakeholder impact.

By 2026, BFF is committing to achieve a net zero carbon emissions target[17] through low-impact office buildings and efficient technological infrastructure. C. 80% of employees is expected to work in green buildings by 2026 (vs. current 47%). A new sustainable headquarters, *Casa BFF*, will be inaugurated by YE24 promoting a better integration between BFF and its surrounding community, thanks to a city garden, an outdoor theatre, and an art gallery.

BFF has a strong commitment to improve its positive impact on society also leveraging on Farmafactoring Foundation activities. BFF will double its investment in the Foundation activities, based on a new long-term plan built around the concept of integrated welfare. The Foundation plan will be presented to the stakeholders in the fall of 2023.

BFF continues to aim for excellence in its governance, a key component of which is the Board of Directors' slate selection process aimed at reinforcing the board profile in the best interest of all stakeholders.

The BFF team is strongly aligned to stakeholders through incentives promoting meritocracy, ownership, and sustainability, with short term inventive plans and long-term stock option plans covering respectively 72% and 21% of BFF employees. Sustainable performance metrics are

[16] In addition to TCR >15%, as long as requested by the ECB.
[17] Including scope 1 and 2 emissions.

embedded within BFF remuneration policy, promoting the reduction of gender pay-gap, the reduction of carbon emissions, and diversity.

VI. 2026 FINANCIAL TARGETS

Together with the approval of the 2028 strategic plan, BFF announces the new medium term financial targets for the Group.

While building our 2028 strategy on the development of our market leading core businesses, the investment in our operating infrastructure, the optimization of our funding structure and capital, maintaining our historical low risk profile, the engagement of our people and sustainability commitments as a core asset, BFF aims to deliver by 2026:

- A best-in-class **Cost/Income** below 40%,
- A strong growth in **Adjusted Net Profit** to a €255-265m range,
- **Earnings Per Share range**: €1.37-1.43 (€1.34-1.39 fully diluted),
- **Cumulated dividends** (FY23-26): over €720m, i.e. c. 40% of its market capitalization,
- **CET1 Ratio**: 12% or higher,
- A market leading **Return on Tangible Equity**[18] : >50%.

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This press release is available on-line on BFF Group's website www.bff.com within the Investors > PR & Presentations section.

[18] RoTE: Adj. Net Profit/(Year end Equity book value – Reported Net Income + Interim dividend - AT1 – Year End Intangibles).

BFF Banking Group

BFF Banking Group is the largest independent specialty finance operator in Italy and a leading player in Europe, specialized in the management and non-recourse factoring of trade receivables due from the Public Administrations, in securities services, and in banking and corporate payments. The Group operates in Italy, Croatia, the Czech Republic, France, Greece, Poland, Portugal, Slovakia and Spain. BFF is listed on the Italian Stock Exchange. In 2022 it reported a consolidated Adjusted Net Income of €146 million, with a 17.0% Group CET1 ratio at the end of March 2023. http://www.bff.com

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