

*Courtesy translation*

**BOARD OF DIRECTORS REPORT ON ITEM FIVE ON THE AGENDA FOR  
THE GENERAL SHAREHOLDERS' MEETING**

**(CONVENED FOR 25 MARCH 2021 ON SINGLE CALL)**

*Appointment of the Board of Directors. Related resolutions*

## REPORT OF THE BOARD OF DIRECTORS

### Introduction

Dear Shareholders,

This is to remind you that, at the Annual General Meeting convened to endorse the financial statements for the year ended on 31 December 2020, to be held on 25 March 2021 at 11.00 hours conventionally at the registered offices of Banca Farmafactoring S.p.A. (the “**Bank**” or the “**Company**”) in Milan at Via Domenichino, No. 5 (the “**Corporate Headquarters**”), **on single notice** (the “**General Meeting**”), the Bank’s Board of Directors term will expire.

The Board of Directors has, therefore, resolved to call the General Meeting to debate the following item on the agenda:

### AGENDA

1. *[Omissis]*
2. *[Omissis]*
3. *[Omissis]*
4. *[Omissis]*
  - 4.1. *[Omissis]*
  - 4.2. *[Omissis]*
  - 4.3. *[Omissis]*
5. *Appointment of the Board of Directors. Related resolutions.*
  - 5.1. *Determination of the number of members of the Board of Directors.*
  - 5.2. *Determination of the term of office of the Board of Directors.*
  - 5.3. *Appointment of the members of the Board of Directors.*
  - 5.4. *Appointment of the Chairman of the Board of Directors.*
  - 5.5. *Determination of the remuneration of members of the Board of Directors.*
6. *[Omissis]*
  - 6.1. *[Omissis]*
  - 6.2. *[Omissis]*
  - 6.3. *[Omissis]*
  - 6.4. *[Omissis]*

According to Article 125-*ter* of the Legislative Decree No. 58 of 24 February 1998, as subsequently amended (the Consolidated Financial Act – “**TUF**”), unless otherwise established in other legal provisions, the administrative body must, by the deadline for publication of the notice, post a report on the items on the agenda at the public’s disposal in the registered offices, on the company website or by other means established by the CONSOB in regulations.

Pursuant to that obligation, this report (the “**Report**”), refers to item five on the Agenda for the Meeting, concerning “*Appointment of the Board of Directors. Related resolutions*” and associated matters, and it has been approved by the Board of Directors on 10 February 2021.

The Report has been filed with the registered offices and at Borsa Italiana S.p.A. as provided for in Article 125-*ter* of the TUF, authorizing Shareholders to request a copy. It can also be accessed at “*Governance/Shareholders’ Meeting Documentation*” on the Bank’s *website* ([www.bffgroup.com](http://www.bffgroup.com), the “**Website**”), and at the centralized storage facility called “1info”, managed by Computershare S.p.A., available at [www.1info.it](http://www.1info.it) (“**1info**”).

In order to formulate proposals regarding the decision-making items outlined in this Report, Shareholders are asked to take account of the indications and guidelines expressed to Shareholders on the future size and composition of the Company’s Board of Directors, as stated in the “*Guidelines for Shareholders on the qualitative-quantitative Composition of the Board of Directors and for the preparation of the list of the Board of Directors*”, approved by the Board of Directors on 19 January 2021 and made available to the Shareholders in the section “*Governance/Shareholders’ Meeting Documentation*” of our website (the “**Guidelines**”).

Having said that, the Shareholders are free to express different assessments on the optimal composition of the Board of Directors, without prejudice to the need to justify any deviations from the indications contained in the Guidelines.

Moreover, it should be noted that the Board of Directors will make use of the power, expressly provided for in art. 15 of the Bank's By-Laws, which can be consulted on the Website in the "Governance/Corporate documents" section (the "**By-Laws**"), to submit its own list of candidates (the "**BoD List**"). This List of the Board of Directors, which will be published within 30 days of the date of the Shareholders' Meeting, will be prepared with the contribution of the Nomination Committee of the Bank, after it has been assessed by Russell Reynolds, a leading independent

executive search firm, which has certified its overall consistency with the Guidelines and the regulations referred to therein. The List of the Board of Directors shall take into account, in addition to the regulatory provisions better specified in paragraph 5.3 below, the results of the annual self-assessment process of the Board of Directors, supervised by the Nomination Committee in coordination with the Chairman of the Board of Directors, and conducted with the support of Eric Salmon & Partner S.r.l., an independent external professional specialised in this field (the “**Board Review**”).

The List of the Board of Directors will be made available to the public at the Company's registered office, at Borsa Italiana S.p.A. and on the Website, in the section "*Governance/Shareholders' Meeting Documentation*", as well as on IInfo.

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## **5.1 Determination of the number of members of the Board of Directors**

Article 14, paragraphs 1 and 2, of the Bank's By-Laws provides that “*1. The Company is managed by a Board of Directors comprised of 5 (five) to 13 (thirteen) members, who [...] can be re-elected. 2. The General Meeting determines the number of members of the Board of Directors – which remains unchanged until resolved otherwise*”.

The Board of Directors, referring to the Guidelines with regard to the optimal composition of the Board of Directors, therefore, asks you to set to 9 (nine) the number of members of the Board of Directors, as this dimension, also as a result of the Board Review, is deemed appropriate to ensure the Company to function properly.

Now, the following proposal is submitted for your approval:

“*The General Meeting of Banca Farmafactoring S.p.A.:*

- i) having examined the Report of the Board of Directors;*
- ii) taking into account the provisions of Article 14 of the By-Laws regarding the size of the Board of Directors;*
- iii) considering the recommendations of the ceasing Board of Directors regarding that item on the agenda, in the specific indications contained in the “Guidelines for Shareholders on the quali-quantitative composition of the Board of Directors and for the preparation of the list of*

*the Board of Directors" prepared in compliance with the "Supervisory Provisions for Banks" pursuant to Circular no. 285 of 17 December 2013 of the Bank of Italy, as subsequently amended, and the indications contained in the Corporate Governance Code approved by the Corporate Governance Committee set up by the business associations (ABI, ANIA, Assonime, Confindustria), by Borsa Italiana S.p.A. and by the Association of professional investors (Assogestioni), to which the Bank belongs,*

***resolves***

*to set to No. 9 (nine) the number of members of the Board of Directors".*

**5.2 Determination of the term of office of the Board of Directors**

Article. 14, paragraph 1 of the By-Laws provides, inter alia, that the term of office of the Board of Directors is equal to *"three financial years (or such shorter period as decided by the General Meeting at the time of appointment)"*.

To this end, the Board asks to confirm the current term of office of Directors' appointment, equal to No. 3 (three) financial years. This deadline is deemed to be adequate to ensure that the new Directors have a sufficient time horizon to justify their initial investment of time and effort required in order to acquire an appropriate knowledge of the company and the sector in which the Group operates.

Now, the following proposal is submitted for your approval:

*"The General Meeting of Banca Farmafactoring S.p.A.:*

- i) having examined the Report of the Board of Directors;*
- ii) taking into account the provisions of Article 14 of the By-Laws regarding the term of office of the Board of Directors,*

***resolves***

*to set the term of office of the Board of Directors in a period of No. 3 (three) financial years (2021, 2022, 2023), expiring on the occasion of the General Meeting that shall be convened to approve the financial statements for the year 2023".*

### 5.3 Appointment of the members of the Board of Directors

The appointment of the Board of Directors occurs, pursuant to and in the manner set out in Article 15 of the By-Laws, on the basis of lists submitted by the outgoing Board of Directors and/or Shareholders, each of which sets out a number of candidates not greater than the number of members to be appointed, listed through a sequential numbering.

Only Shareholders who, alone or together with other Shareholders, hold in aggregate shares representing a percentage equal to at least 2.5% percent of the Bank share capital are entitled to submit lists<sup>1</sup>. Ownership of the minimum shareholding for the submission of lists is determined according to the shares that are registered to the Shareholder on the day on which the lists are deposited with the Company, together with the appropriate certification issued by the custodian intermediary. Ownership of the equity investment held on the day on which the lists are filed with the Bank may however also be provided subsequent to the filing, by sending the aforementioned certification to the Company issued by the certified intermediaries provided that it is within the deadline for publication of such list (i.e., by **March 1, 2021**, since February 28th, 2021 is a holiday and there are no plans to reopen the deadlines).

Each Shareholder (including through an intermediary or a trust company, as well as Shareholders adhering to a shareholders' agreement relevant under Article. 122 of the TUF, Shareholders who belong to the same group - intending thereby the parent company, subsidiaries, and companies subject to joint control) - may submit – or participate in the submission of – and vote for only one list. Adhesions and votes cast in violation of said prohibition will not be allocated to any list.

Each person entitled to vote may vote for one list only. Adhesions and votes cast in violation of said prohibition shall not be allocated to any list.

Each candidate may only be included in one list, upon penalty of ineligibility, in accordance with current legislation.

With regard to the content of the Decree of the Ministry for the Economy and Finance no. 169 of 23 November 2020 (the "**Fit & Proper Regulation**") issued in implementation, inter alia, of art. 26 of

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1 Consob Resolution No. 28 of 30 January 2020, available at [http://www.consob.it/documents/46180/46181/det\\_28\\_2020.pdf/5653c321-9dfb-4d4b-979a-6b95a348cfee](http://www.consob.it/documents/46180/46181/det_28_2020.pdf/5653c321-9dfb-4d4b-979a-6b95a348cfee)

Legislative Decree no. 385/1993, as subsequently amended, and applicable with reference to appointments made after 30 December 2020 and to what is indicated in the Guidelines, each list must comply with the following requirements:

- the list shall not include any candidates who do not meet the requirements of:
  - i) integrity and who do not meet the criteria of fairness set forth in Articles 3 and 4 of the Fit&Proper Regulation, respectively;
  - ii) professionalism and who do not meet the competence criteria as per articles 7 and 10 of the Fit&Proper Regulation, respectively, as well as the criteria of adequate collective composition of the bodies as per article 11 of the Fit&Proper Regulation;
  - iii) independence as per art. 13 of the Fit&Proper Regulation, where applicable.

Each candidate must also (i) comply with the limits on the number of positions provided for in art. 17 of the Fit&Proper Regulation; and (ii) guarantee adequate time availability to carry out the office, pursuant to art. 16 of the Fit&Proper Regulation, taking into account, among other things, the possibility of being part of Board committees. With reference to the details of the number of meetings held during the 2018-2020 financial years, please refer to paragraph 6.1 of the Guidelines;

- as indicated in the Guidelines, the Board of Directors includes at least two independent directors, other than the Chairman of the Board, if the Board is composed of seven members, at least three if it is composed of up to twelve members, and at least four if it is composed of a higher number (the Board List requires that at least half of the candidates meet the independence requirements);
- pursuant to art. 15 of the By-Laws, the first candidate on each list must be a person who meets the independence requirements;
- pursuant to art. 15 of the By-Laws, the lists containing a number of candidates equal to or higher than three must include candidates of a different gender, at least to the minimum extent required by the regulations concerning the composition of the Board of Directors (i.e. two fifths);
- the lists that contain more than half of the candidates must indicate the candidate for the

position of Chairman of the Board of Directors.

Moreover, according to the results of the Board Review, the Bank deems it advisable to ensure the presence of one third of Directors who have gained (a) adequate experience in the international sphere, preferably with reference to the markets in which the Group operates and, in particular, to Eastern Europe (i.e. Poland, Czech Republic, Slovakia, Croatia); and (b) in the specific business of custodian bank, payment services and ancillary services. On this point, reference should be made to paragraphs 5.3 and 7 of the Guidelines.

Together with each list, within the same deadline for submission, the following documents shall be filed with the Corporate Headquarters:

- information on the identity of the Shareholders presenting the lists, indicating their percentage shareholding in the Bank;
- a declaration by Shareholders other than those who hold, including jointly, a controlling interest or relative majority, attesting to the absence of any forms of association with such shareholders, as provided by Article 147-ter of the TUF, and by Article 144-quinquies of the “Regulations Providing Guidelines for the Implementation of Legislative Decree No. 58 of February 24, 1998 Governing Issuers of Securities” (Consob Resolution No. 11971 of May 14, 1999 and subsequent amendments and additions, the “**Issuers’ Regulations**”);
- a declaration – in Italian and English – in which individual candidates (i) accept the candidacy and (ii) certify on their own responsibility that there is no cause of ineligibility and incompatibility, and that they meet the requirements prescribed by law and By-Laws (of which a facsimile is attached – *sub B* - to the Guidelines);
- an Italian and English *curriculum vitae* of each of the candidates, signed and dated and issued on a date not earlier than one month, containing exhaustive information on their personal and professional characteristics and their experience in the fields of finance, banking and/or other fields of relevance as further defined in the Guidelines.

Finally, it is recommended that candidates provide the additional information requested in the questionnaire attached as Annex D to the Guidelines, which the Bank expects to receive at the same time as the filing of the lists in order to allow the Board of Directors to carry out its own



assessments, in view of the fact that the "Fit&Proper" examination of each Director and of the Board as a whole is one of the first tasks of the newly appointed Board of Directors

Shareholders are also invited to consult the recommendations expressed in the Consob Communications DEM/9017893 of 26 February 2009<sup>2</sup>, with particular reference to the signatory testifying to the absence of connecting relationships, also indirect, referred to by Article 147-ter, paragraph 3, of the TUF and Article 144-quinquies of the Issuers' Regulations, with Shareholders who hold, even jointly, a controlling or relative majority, identified on the basis of the notifications of significant holdings pursuant to Article 120 of the TUF, or of the publication of shareholders' agreements pursuant to Article 122 of the TUF itself.

Lists for which the above provisions are not observed shall be treated as if they had not been presented.

Further information on the submission, filing and publication of the lists is contained in Article 15 of these By-Laws and in the notice of the General Meeting”, available, respectively, in the section “*Governance/Corporate Governance*” and “*Governance/Shareholders’ Meeting Documentation*”.

In this regard, we point out - for the sake of clarity and in the spirit of facilitating the presentation of "minority lists" for the appointment of the Board of Directors - that lists with fewer than two independent directors are also allowed, if the list contains a single name. This can be inferred from a combined reading of paragraphs 1 and 7 of art. 15 of the By-Laws, and is consistent with paragraph 10, letter b) of art. 15 of the By-Laws, which reserves one Director to the so-called "minority list".

Lists submitted in regulatory form by the Shareholders, will be made available to the public at the registered offices of Borsa Italiana S.p.A., on the Bank’s website in the section on “*Governance/Shareholders’ Meeting Documentation*” and on Info, by 4 March 2021, twenty-one days ahead of the date for the Shareholders’ Meeting.

With regard to the mechanism for appointing the Board of Directors, it should be noted that , pursuant to Article 15, paragraph 10, of the By-Laws, the procedure for the appointment of the members of the Board of Directors is as follows:

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2 Available at <http://www.consob.it/documents/46180/46181/c9017893.pdf/db9abda-9ee8-4880-88f8-f9083da6f9d7>.

*“At the end of the voting, the candidates from the two lists that have obtained the highest number of votes will be elected, according to the following criteria:*

- (a) all members of the Board, up to the number of members of the Board previously determined by the General Meeting less 1 (one), will be elected, in the numerical order of their appearance in the list itself, from the list which obtains the most votes (hereinafter, “Majority List”).*
- (b) the remaining director shall be drawn from the list which gains the second highest number of votes (hereinafter, “Minority List”, which is not connected, even indirectly, with the shareholders who have presented or voted for the Majority List and which has not been presented by the Board of Directors”.*

We recall that, in case more than one list has obtained the same number of votes, a ballot is organized for such lists by all the Shareholders at the Meeting, thus electing the candidates in the list receiving the simple majority of votes.

If the application of the list voting mechanism does not ensure the minimum number of directors belonging to the less represented gender as required by applicable laws, the candidate from the most represented gender that was elected last in progressive order in the majority list shall be replaced by the first unelected candidate of the less represented gender in the same list in the sequential order of presentation or, in default, by the first unelected candidate of the less represented gender from other lists, in accordance with the number of votes each obtained. This replacement procedure shall be used (limited to the lists containing a number of candidates equal to or higher than three) until the composition of the Board of Directors complies with current laws and regulations concerning gender balance.

If this procedure fails to produce the above result, replacement will take place via General Meeting resolution by relative majority, following the nomination of candidates meeting the less represented gender requirements.

If the application of the list voting mechanism does not ensure the minimum number of independent directors required by applicable laws and/or regulations, the non-independent candidate with the highest sequential number in the list obtaining the most votes shall be replaced by the unelected candidate in the same list in the sequential order of presentation or, in default, by the first

independent candidate in accordance with the progressive order not elected from other lists, in accordance with the number of votes each obtained. This replacement procedure shall be used (limited to the lists containing a number of candidates equal to or higher than three) until the minimum number of Independent directors has been completed, as required by laws and regulations and without prejudice, in any case, to respect for the balance between gender.

If this procedure fails to produce the above result, replacement will take place via General Meeting resolution by relative majority, following the nomination of candidates meeting the independence requirements.

We remind that the lists, submitted by Shareholders, signed by those submitting them, shall be lodged with the Registered Office (to the attention of the Corporate Affairs Department), or by certified e-mail to [assemblea@pec.bancafarmafactoring.it](mailto:assemblea@pec.bancafarmafactoring.it), jointly with the relevant documentation requested by law and by the Company's By-Laws, on penalty of disqualification, by the **March 1, 2021**, since February 28, 2021 - twenty five days before that scheduled for the Meeting - is a holiday and there are no plans to reopen the deadlines.

In light of the above, the Shareholders are invited to appoint the members of the Board of Directors on the basis of the lists of candidates for the office of members of the Board of Directors that shall be presented and published in compliance with the above-mentioned provisions, including the BoD List.

#### **5.4 Appointment of the Chairman of the Board of Directors**

Pursuant to Article 15, paragraph 24 of the By-Laws, the General Meeting shall appoint the Chairman of the Board of Directors.

By expressly referring to the indications on the personal and professional requirements and characteristics of the Chairman of the Board of Directors, as stated in the Guidelines, we invite you to appoint the Chairman of the Board of Directors.

In particular, the Chairman of the Board, pursuant to the Fit&Proper Regulation, must be chosen among the candidates who have carried out, for at least five years, also alternatively:

- a. administration or control activities or management tasks in the credit, financial, securities or insurance sector;

- b. administration or control activities or management tasks at listed companies or companies whose size and complexity are greater than or comparable to (in terms of turnover, nature and complexity of the organisation or of the activity carried out) that of the Bank,  
or
- a. professional activities relating to the credit, financial, securities and insurance sectors or, in any event, functional to the Bank's activities. The professional activity must be characterised by adequate levels of complexity, also with reference to the recipients of the services provided, and must be carried out on a continuous and significant basis in the above-mentioned sectors;
- b. university teaching activities, as first or second level lecturer, in legal or economic subjects or in other subjects that are in any case functional to the activities of the credit, financial, securities or insurance sector;
- c. managerial, executive or top management functions, howsoever called, at public bodies or public administrations related to the credit, financial, securities or insurance sector, provided that the body at which the representative carried out such functions is of a size and complexity comparable with that of the Bank.

For the purposes of meeting the requirements set out in the previous points, the experience gained during the twenty years prior to taking office is taken into account. Experience gained at the same time in more than one function is counted only for the period of time in which it was carried out, without accumulating it.

Moreover, the Fit&Proper Regulation requires, among other things, that the experience gained in the coordination, guidance or management of human resources be assessed, such as to ensure effective performance of the functions of coordinating and directing the work of the Board of Directors, promoting its proper functioning, also in terms of circulation of information, effectiveness of comparison and stimulation of internal discussion, as well as adequate composition of the body. This assessment can be omitted in case he/she complies with the above-mentioned professionalism requirements, when they have been met for at least 10 years (accrued within the last 13).

## 5.5 Determination of the remuneration of members of the Board of Directors

Pursuant to art. 21, paragraph 1, of the By-Laws, “*As well as being reimbursed for the expenses they incur in carrying out their duties, Directors are entitled to a compensation as established by the General Meeting.*”.

It should be noted that (i) the Shareholders' Meeting of April 5, 2018 resolved to grant the Board of Directors a total gross annual remuneration of EUR 450,000; and (ii) on the same date, the Board of Directors resolved to grant each Director a gross annual remuneration of EUR 50,000, in addition to the reimbursement of expenses.

The Board of Directors currently in office proposes to the Shareholders to set the total annual gross remuneration at EUR 450.000 to be allocated among the members of the Board of Directors in compliance with the resolutions that will be taken by the Board in this regard, in accordance with the Company's Remuneration Policy, to be paid *pro rata temporis*, and on the basis of the proposals that may be made by the Shareholders during the Shareholders' Meeting.

It is understood that the fees for Directors holding specific offices, always in compliance with the above-mentioned Company's remuneration policy, will be determined by the Board of Directors.

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It is therefore recommended that any proposals on this discussion of the Agenda and the related points should be submitted by Shareholders well ahead of the date of the Meeting.

Milan, 10 February 2021

For the Board of Directors  
THE CHAIRMAN  
(Salvatore Messina)