

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

(convened for 28 March 2019 on single call)

Proposal to grant powers to the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, to increase free of charge the share capital pursuant to art. 2349 of the Italian civil code and consequent amendment to art. 5 of the By-Laws. Related and consequent resolutions.

Shareholders,

you have been convened to this extraordinary Shareholders' Meeting in order to vote on the proposal to grant powers to the Board of Directors of Banca Farmafactoring S.p.A. (the "**Company**" or "**BFF**") pursuant to art. 2443 of the Italian Civil Code, to increase free of charge the share capital, divisible and in several *tranches*, pursuant to art. 2349 of the Italian Civil Code, for a period of five years from the date of the resolution, for a maximum of Euro 3,003,000, through the issue of up to 3,900,000 ordinary shares (the "**Free Share Capital**"), to be allotted to employees of the Company and its subsidiaries (the "**BFF Group**"), in relation to the Company's requirements regarding variable remuneration and incentive policies.

The purpose of this Report is to describe the reasons underlying the granting of the aforesaid powers to effect the aforesaid Free Share Capital and the related proposal on the agenda, in compliance with the provisions of art. 125-*ter* of Italian Legislative Decree No. 58 of 24 February 1998, as amended (the "**TUF**"), and of art. 72 and Annex 3A of the Regulation adopted by Consob resolution no. 11971 of May 14, 1999, as amended (the "**Issuers' Regulation**").

It should be noted that the Bank of Italy, by ruling no. 1468492, dated 14 December 2018, ascertained, pursuant to art. 56 and 61 of Italian Legislative Decree no. 385/1993, that the statutory amendment described in this Report does not conflict with the principle of sound and prudent management.

1. Reasons for the Free Share Capital

In compliance with the provisions of the current "*Remuneration and incentive policy for members of the strategic supervision, management and control bodies and personnel of the Banca Farmafactoring Banking Group*" (the "**Policy**"), the Company may need to allot shares to its employees in relation to the following variable remuneration and incentive schemes:

- a variable remuneration scheme called "*Management by Objectives*" ("**MBO**");
- the "*Banca Farmafactoring Banking Group Stock Option Plan*", originally approved by the Shareholders' Meeting of 5 December 2016 and the amendment of which is subject to the approval of the Ordinary Shareholders' Meeting called for 28 March 2019 (the "**Stock Option Plan**"); and
- incentive plans concerning the *one-off* allotment free of charge of financial instruments ("**Stock Grant**"), subject to prior approval by the Shareholders' Meeting.

That said, the shares issued under the Free Share Capital, submitted for your approval, will meet the following purposes:

- (a) meet the requirements of balancing the cash component (*cash*) and the financial instrument component of the variable remuneration of BFF group key personnel (*risk takers*), which may become due pursuant to the MBO envisaged by the Policy;

- (b) to cover the *cash-less* exercise of the Stock Option Plan by BFF Group employees who have been previously authorized by the Board of Directors or by the Chief Executive Officer to exercise the options according to this method. For more information on the Stock Option Plan and the *cash-less* exercise, please refer to the Board of Directors' report on the item 3.3 on the agenda of the Ordinary Shareholders' Meeting of 28 March 2019 and the accompanying information document, which were published within the legal time limits and which can be found on the Company's website www.bffgroup.com, in the "Governance /Shareholders' meeting documentation" section, and in the www.linfo.it storage mechanism; and
- (c) to cover the *one-off* allotment of shares free of charge to BFF Group employees (the "**One-off Allotment**") submitted for approval to the Ordinary Shareholders' Meeting on 28 March 2019, as well as any Stock Grants that will be submitted to the Shareholders' Meeting for approval in the future. For more information on the One-off Allotment please refer to the report of the Company's Board of Directors on the item 3.4 on the agenda of the Ordinary Shareholders' Meeting of 28 March 2019 and the accompanying information document, which were published within the legal time limits and which can be found on the Company's website www.bffgroup.com, in the "Governance /Shareholders' meeting documentation" section, and in the www.linfo.it storage mechanism.

2. Characteristics of the Free Share Capital

For the purposes described in paragraph 1 above, it is therefore proposed that the Board of Directors be granted powers, pursuant to art. 2443 of the Italian Civil Code, to increase free of charge the share capital, divisible and in several tranches, by drawing from the profits or profit reserves to be allocated for this purpose and to be identified by the Board of Directors, pursuant to art. 2349 of the Italian Civil Code, for a maximum amount of Euro 3,003,000, by issuing up to 3,900,000 ordinary shares, with an issue value equal to the book par value of the Company's shares on the execution date, to be entirely accounted for as capital.

It is envisaged that the powers be granted for the maximum period permitted by law, i.e. 5 years as of the date of the Shareholders' Meeting resolution approving their inclusion in the By-Laws, and that they may be exercised one or more times by the Board of Directors. Therefore, the powers the granting of which is the subject of this proposal, shall be exercised one or more times within that period, after which they shall cease to be effective.

The Free Share Capital must be carried out through the use of profits and/or profit reserves, to be identified by the Board of Directors on the basis of the latest approved financial statements. The Board of Directors will also be granted the powers to make the appropriate accounting entries ensuing the issue transactions, in compliance with the legal provisions and the accounting standards from time to time applicable.

3. Characteristics of the newly issued shares

At the relevant issue date, the Company's shares allotted to the beneficiaries of the MBO, the Stock Option Plan and the Stock Grant in execution of the Free Share Capital will automatically be admitted to trading on the Mercato Telematico Azionario and credited to the securities accounts of the beneficiaries after specific notices are submitted by the Company to Monte Titoli S.p.A. and Borsa Italiana S.p.A.; said shares will have regular entitlement and will guarantee their holders the same rights as the ordinary BFF shares outstanding as at that date.

4. Amendments to the By-Laws

Given the foregoing, it is proposed that art. 5 of the Company's By-Laws be amended as shown in the following table, which shows side by side the wording of the aforementioned art. 5 as stated in the current By-Laws and that which would result from the approval of the proposed amendments.

To facilitate the identification of the amendments to the By-Laws, for each provision which is the subject of the proposed amendment, the following steps were taken:

- the wording of the current By-Laws is shown in the left column of the table;
- the wording to be adopted according to the proposal is shown in the right column of the table, and the added parts are underlined.

Current By-Laws	Amendments to the current By-Laws
ARTICLE 5 - SHARE CAPITAL	ARTICLE 5 - SHARE CAPITAL
1. The fully subscribed and paid in share capital is equal to Euro 130,982,698.00, represented by 170,107,400 ordinary shares without nominal value and in dematerialisation regime.	Unchanged
2. The share capital may, by a resolution of the extraordinary Shareholders' Meeting, be increased by one or more tranches, also by way of delegation to the Board of Directors.	Unchanged
3. In capital increase resolutions for consideration, option right may be excluded up to a maximum amount of 10% of the pre-existing share capital, provided that the new shares issue price corresponds to the market value of outstanding shares, and this is confirmed by a specific report of an external legal auditor or legal audit firm.	Unchanged
4. Contributions due in execution of capital increases may consist of assets in kind and receivables.	Unchanged
5. The extraordinary Meeting may approve the	Unchanged

issuance of warrants - within the limits and in accordance with the conditions set forth by the Bank of Italy - entitling to the right to subscribe for Bank shares, provided that such right is exercised within five years of the respective issuance.

6. On December 5, 2016, the extraordinary Shareholders' meeting resolved to increase the share capital for consideration, in one or more issues, to service the implementation of the "*Stock Option Plan*" in favour of directors and employees of the Company and subsidiaries thereof, as approved by the Company Shareholders' Meeting on the same date, up to a maximum of € 6,899,200.

7. Said capital increase is to be executed by the issuance, in one or more tranches, of a maximum of 8,960,000 new shares, at an issue price to be determined in accordance with the aforementioned "*Stock Option Plan*".

8. The extraordinary Company Shareholders' Meeting further determined that (i) where not fully subscribed for by the deadline of the expiry of the 12th year after the date on which the aforementioned meeting resolution has been adopted, said capital increase shall remain confirmed within the limits of the subscriptions collected until said date, and (ii) the Board of Directors is granted with every broadest power to determine, from time to time, the shares issue price (including share premium), as well as the other terms and conditions for the execution of the capital increase in accordance with the provisions laid down in the "*Stock Option Plan*", as well as to perform the consequent amendments to this article, for the purpose of adjusting the share capital amount after the execution of the "*Stock Option Plan*".

9. Should special category shares be outstanding at the time these By-Laws enter into force, said shares will automatically and immediately be converted into ordinary shares, according to the ratio of no. 1 ordinary shares per each no. 1 special category share. In this case, the conversion is immediately effective and the Board of Directors shall immediately put in place all formalities necessary to execute said conversion and every other fulfilment laid down by the applicable provisions of law and regulations.

Unchanged

Unchanged

Unchanged

Unchanged

[6]. The Shareholders' Meeting held in extraordinary session on [28 March] 2019 approved the granting of powers to the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase free of charge the share capital, in one or more tranches, divisible, up to [27 March] 2024, through the issue of up to 3,900,000 ordinary shares

with no nominal value, with the same characteristics as those outstanding and regular entitlement, for a maximum amount of Euro 3,003,000, for an issue value equal to the book par value of the Bank's shares at the execution date to be entirely accounted for as capital, intended to meet the Company's requirements related to remuneration and incentive policies, with specific reference to: (i) the need to balance the cash and financial instrument components of the variable remuneration of the Group key personnel (or risk takers), which may become payable pursuant to the "*Management by Objective*" scheme envisaged by the "*Group's remuneration and incentive policy for members of the strategic supervision, management and control bodies and personnel of the Banca Farmafactoring Banking Group*" from time to time in force; (ii) any allotment of shares to Group employees; and (iii) the current "*Stock Option Plan of Banca Farmafactoring Banking Group*", through the allocation of a corresponding amount of profits and/or profit reserves as per the latest financial statements from time to time approved pursuant to Article 2349 of the Italian Civil Code.

Please note that the final wording of art. 5 will also contain any further approved amendments to the By-Laws as submitted to the Extraordinary Shareholders' Meeting convened on 28 March 2019 and highlighted in the Board of Directors' explanatory report on the third item on the agenda, which can be found on the Company's website www.bffgroup.com, in the "Governance /Shareholders' Meeting documentation" section, and in the storage mechanism www.linfo.it.

5. Assessment of the applicability of the right to withdraw

The proposed amendment to the By-Laws does not fall within any of the cases of withdrawal envisaged by the By-Laws and by the applicable laws and regulations.

6. Proposed resolution

In light of the above, the Board of Directors proposes to take the following resolution:

"In relation to the second item on the agenda for the extraordinary session, the Extraordinary Shareholders' Meeting of the company Banca Farmafactoring S.p.A.,

- having acknowledged that on 14 December 2018 the Bank of Italy issued assessment ruling no. 1468492, with regard to the proposed amendments to the By-Laws as stated hereinafter;

- *having examined the Board of Directors' explanatory report and the proposed resolutions contained therein; and*
- *having regard to the provision in the Company's By-Laws which permits the allocation of profits and / or profit reserves to employees by issuing shares reserved for them, pursuant to art. 2349 of the Italian Civil Code.*

resolves

1) to grant powers to the Board of Directors, pursuant to art. 2443 of the Italian Civil Code, for a period of five years from the date of this resolution, to increase free of charge the share capital, in one or more tranches, for the purpose of funding (i) the "Management by Objectives" variable remuneration scheme, (ii) any allotment of shares to Group employees, including the one-off allotment of shares to Group employees approved today by the Ordinary Shareholders' Meeting ("Stock Grant"), and (iii) the "Stock Option Plan of Banca Farmafactoring Banking Group" ("Stock Option Plan"), for a maximum of Euro 3,003,000 through the issue of up to 3,900,000 new ordinary shares without par value, having the same characteristics as those outstanding, with regular entitlement, at an issue value equal to the book par value of Banca Farmafactoring shares at the date of execution of this granting of authority, to be entirely accounted for as capital, by allocating a corresponding amount of profits and/or profit reserves as per the latest financial statements from time to time approved pursuant to art. 2349 of the Italian Civil Code, under the terms and conditions and according to the procedures envisaged by (i) the "Management by Objectives" variable remuneration scheme, (ii) the Stock Grant; and (iii) the Stock Option Plan;

2) as a result of the foregoing, to amend art. 5 (five) of the By-Laws through the introduction of a new last paragraph [8] worded as follows: "The Shareholders' Meeting held in extraordinary session on [28 March] 2019 approved the granting of powers to the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase free of charge the share capital, in one or more tranches, with partial subscription permitted, up to [27 March] 2024, through the issue of up to 3,900,000 ordinary shares with no nominal value, with the same characteristics as those outstanding and regular entitlement, for a maximum amount of Euro 3,003,000, for an issue value equal to the book par value of the Bank's shares at the execution date to be entirely accounted for as capital, intended to meet the Company's requirements related to remuneration and incentive policies, with specific reference to: (i) the need to balance the cash and financial instrument components of the variable remuneration of the Group key personnel (or risk takers), which may become payable pursuant to the "Management by Objective" scheme envisaged by the "Group's remuneration and incentive policy for members of the strategic supervision, management and control bodies and personnel of the Banca Farmafactoring Banking Group" from time to time in force; (ii) any allotment of shares to Group employees; and (iii) the current "Stock Option Plan of Banca Farmafactoring Banking Group", through the

allotment of a corresponding amount of profits and/or profit reserves on the basis of the latest approved financial statements pursuant to Article 2349 of the Italian Civil Code”;

3) to hereby grant to the Board of Directors, and, on its behalf, to its Deputy Chairman and to the pro-tempore CEO in office, to be exercised separately including through attorneys-in-fact appointed for this specific purpose, any and all powers to carry out all the deeds and transactions as may be necessary and appropriate to implement the above resolutions and to amend from time to time art. 5 (five) of the By-Laws as a result of the resolutions, execution and completion of the authorized capital increase, and, for this purpose, to perform all the obligations and all the disclosures envisaged by law, as well as to carry out all the necessary formalities for registration of the adopted resolutions in the relevant Register of Companies, and to incorporate in these resolutions any amendments or additions that may prove necessary or merely appropriate or that may be requested by the competent authorities, as well as any power to carry out the regulatory obligations that ensue the adopted resolutions."

Milan, 19 February 2019

On behalf of the Board of Directors
THE CHAIRMAN
(Salvatore Messina)