

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

(convened for 28 March 2019 on single call)

Proposal for paid share capital increase, with partial subscription permitted, with the exclusion of the subscription right, pursuant to art. 2441, paragraphs 5 and 6 of the Italian Civil Code, subject to prior revocation of the resolution to increase the share capital pursuant to art. 2441, paragraph 8, of the Italian Civil Code approved by the Extraordinary Shareholders' Meeting of 5 December 2016 and consequent amendment of 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 increase the share capital of Banca Farmafactoring S.p.A. (the “**Company**” or “**BFF**”), for valuable consideration and divisible, to be executed in one or more *tranches*, within 5 December 2028 and with the exclusion of the subscription right pursuant to art. 2441, paragraphs 5 and 6, of the Italian Civil Code, for a maximum nominal amount of Euro 6,899,200, through the issue, also in several *tranches*, of up to 8,960,000 shares without par value (the “**Share Capital Increase**”), to fund the “*Banca Farmafactoring Banking Group Stock Option Plan*”, approved by the Ordinary Shareholders’ Meeting of 5 December 2016, the amendment of which is proposed to the Ordinary Shareholders’ Meeting of 28 March 2019 (the “**Stock Option Plan**”).

For more information on the Stock Option Plan, please see the information document, published on the Company's website www.bffgroup.com, in the “Governance / Shareholders’ Meeting documentation” section, and in the www.1info.it storage mechanism. In any case, it should be noted that the proposed amendments to the Stock Option Plan - for a description of which, reference is made to the Board of Directors’ report on the third item on the agenda of the Ordinary Shareholders’ Meeting of 28 March 2019, also published on the Company’s website www.bffgroup.com, in the “Governance / Shareholders’ Meeting documentation” section, and the storage mechanism www.1info.it - they are not relevant for the purposes of the proposed Share Capital Increase referred to in this Report, as they do not concern any of the elements described in paragraph 5 of the Report itself.

The purpose of this Report is to describe the reasons underlying the Share Capital Increase 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 articles 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 and intended use of the share capital increase

The Share Capital Increase which is submitted for your approval is intended to fund the requests to exercise the options under the Stock Option Plan which may be received by the Company from all the beneficiaries, i.e. directors, employees and former employees of the group headed by BFF (the “**BFF Group**”).

Considering that pursuant to the Stock Option Plan, the options under the plan are granted to the persons identified by the Board of Directors and/or the CEO from among the employees and/or the non-independent Directors of the BFF Group, and that the options may also be exercised by the “*good leavers*” (employees or

directors who leave the group for any reason other than, respectively, dismissal or revocation for just cause), it is considered necessary to provide the Company with an instrument that can cover, through newly issued shares, the subscription of options granted to both the directors and the employees and former employees of the Company and its subsidiaries pursuant to the Stock Option Plan.

In this regard, it is recalled that on 5 December 2016 the Extraordinary Shareholders' Meeting had approved a paid share capital increase with exclusion of the subscription right and solely reserved, pursuant to art. 2441, paragraph 8, of the Italian Civil Code, for BFF Group employees who are beneficiaries of the Stock Option Plan (the “**2016 Share Capital Increase**”). The pertinent resolution has never been implemented.

The purpose of the proposed Share Capital Increase, which is the subject of this Report, is to revoke the 2016 Share Capital Increase resolution and, as replacement, to approve a paid share capital increase, pursuant to art. 2441, paragraphs 5 and 6, of the Italian Civil Code, the terms of which with regard to (i) maximum number of shares, (ii) maximum nominal amount, (iii) timing and partial subscription characteristics, as well as (iv) methods of issue and type of shares, are equal to those of the 2016 Share Capital Increase, but with a broader purpose, namely to fund the exercise of options under the Stock Option Plan by all the beneficiaries (directors, employees and former employees).

Therefore, the Board of Directors submits the following proposals to the Extraordinary Shareholders' Meeting called for 28 March 2019:

- (i) to eliminate from art. 5 of the current By-Laws the provisions set forth in paragraphs 6, 7 and 8, which were introduced by resolution of the Extraordinary Shareholders' Meeting of 5 December 2016;
- (ii) to introduce in art. 5 of the current By-Laws a new paragraph [7] concerning the Share Capital Increase;
- (iii) to introduce a new paragraph [8] in art. 5 of the current By-Laws, in order to specify the terms of execution of the Share Capital increase, by providing that:
 - if not fully subscribed within the final deadline, said capital increase shall stand to the extent of the subscriptions collected up to that date; and
 - the Board of Directors be granted full powers to establish
 - (a) the portion of the price to be recognized as capital and the portion to be recognized as share premium, and
 - (b) including by granting powers to one or more Directors, from time to time (x) the issue price of the shares (including the share premium), and (y) the other terms and conditions for execution of the share capital increase in compliance with the provisions of the Stock Option

Plan, as well as to make the ensuing amendments to art. 5 of the By-Laws, in order to adjust the share capital amount following the execution of the Stock Option Plan.

2. Potential involvement of underwriting and / or placement syndicates and other types of placement

No placement and/or underwriting syndicates are expected to be involved with regard to the shares covered by the Share Capital Increase.

Since the Share Capital Increase is functional to the actual implementation of the Stock Option Plan, the shares issued under the Share Capital Increase will be subscribed directly by the beneficiaries (whether they are directors, employees or former employees of the BFF Group) upon exercise of the options granted to them pursuant to the plan.

3. Criteria for determining the issue price of the new shares and expected allocation ratio

Since the Share Capital Increase is functional to the actual implementation of the Stock Option Plan, the shares issued under the Share Capital Increase will be subscribed directly by the beneficiaries of the Stock Option Plan at the option exercise price as determined under the Plan.

In this regard, it should be noted that the Stock Option Plan is divided into three *tranches*: (i) the first *tranche* provides for the allocation within 30 days following the start of trading of BFF shares on the Mercato Telematico Azionario; (ii) the second *tranche* provides for the allocation by 31 December 2018; and (iii) the third *tranche* provides for the allocation by 31 December 2019. The exercise price for the options allocated under the first *tranche* will be determined from time to time at each option exercise date, according to the following formula:

{(Market Cap IPO - cumulative D distributed by the IPO up to the Exercise Date) / (number of BFF shares issued and outstanding on the Exercise Date)} = Exercise Price.

The exercise price for the options allotted after the *First Tranche* will be calculated based on the following formula:

{(Market Cap - D distributed from the allotment date up to the Exercise Date) / (number of Bank shares issued and outstanding on the Exercise Date)} = Exercise Price.

where:

- **D** is the amount of dividends approved by BFF shareholders' meeting in relation to the previous financial year;
- **Market Cap** is BFF capitalization calculated on the basis of the average closing price of BFF ordinary shares as measured on the Mercato Telematico Azionario (or other regulated market on which the shares

were then traded) in the 60 days preceding the date of allotment of the options, increased by a simple 8% annual interest, calculated starting from the option allotment date up to the Exercise Date;

- **Market Cap IPO** is equal to the number of Company shares multiplied by the IPO price of each share, plus a simple 8% annual interest calculated from the option allotment date up to the Exercise Date.
- **Exercise Date** means each date on which the beneficiary of the *Stock Option* Plan may exercise the vested options in accordance with the provisions of the *Stock Option* Plan.

The Stock Option Plan provides for the allotment of up to 8,960,000 options overall, which give the right to receive, at the terms and conditions specified therein, ordinary shares of the Company according to 1 share to 1 option ratio, if options are exercised according to the ordinary method. It is recalled that - as mentioned in the introduction - some amendments to the Stock Option Plan were submitted to the Ordinary Shareholders' Meeting on 28 March 2019, in order to introduce, inter alia, the *cash-less* operating method, as an alternative to the ordinary one.

4. Shareholders who have expressed their willingness to subscribe to the paid share capital increase

Not applicable as the Share Capital Increase is reserved for beneficiaries of the Stock Option Plan.

5. Period for the execution of the paid share capital increase

As the Share Capital Increase is intended to replace the 2016 Share Capital Increase which is to be revoked, the execution deadline will be the same as the 2016 Share Capital Increase, i.e. 5 December 2028.

6. Dividend entitlement date of the newly issued shares

The Company's shares allotted to the Stock Option Plan beneficiaries in execution of the Share Capital Increase will automatically be admitted to trading on the Mercato Telematico Azionario and credited to the securities accounts of the beneficiaries after specific requests 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.

7. 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
<p>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.</p> <p>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.</p> <p>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.</p> <p>4. Contributions due in execution of capital increases may consist of assets in kind and receivables.</p> <p>5. The extraordinary Meeting may approve the 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.</p> <p>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 "<i>Stock Option Plan</i>" 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.</p> <p>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 "<i>Stock Option Plan</i>".</p> <p>8. The extraordinary Company Shareholders'</p>	<p>Unchanged</p> <p>Unchanged</p> <p>Unchanged</p> <p>Unchanged</p> <p>Unchanged</p> <p>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 "<i>Stock Option Plan</i>" 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.</p> <p>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 "<i>Stock Option Plan</i>".</p> <p>8. The extraordinary Company Shareholders'</p>

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.

~~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*”.~~
Unchanged.

[7]. The Extraordinary Shareholders' Meeting of the Company resolved to increase the share capital for valuable consideration, with partial subscription permitted, within the final deadline of 5 December 2028, with exclusion of the subscription right pursuant to art. 2441, fifth and sixth paragraphs, of the Italian Civil Code, to fund the implementation of "*Banca Farmafactoring Banking Group Stock Option Plan*" for a maximum nominal value of Euro 6,899,200, plus the share premium, through the issue, in one or more tranches, of up to 8,960,000 new ordinary shares without par value, at an issue price to be determined in accordance with the aforementioned "*Banca Farmafactoring Banking Group Stock Option Plan*".

[8]. The Extraordinary Shareholders' Meeting of the Company also established that (i) if not fully subscribed by the final deadline of 5 December 2028, said capital increase shall stand to the extent of the subscriptions collected up to that date, and (ii) the Board of Directors is granted full powers (a) to establish the portion of the price to be recognized as capital and the portion to be recognized as share premium and (b) to establish, including by granting powers to one or more Directors, from time to time, the issue price of the shares (including the share

premium), and the other terms and conditions for execution of the share capital increase in compliance with “*Banca Farmafactoring Banking Group Stock Option Plan*” and to make the ensuing amendments to this article, in order to adjust the share capital amount following the execution of the “*Banca Farmafactoring Banking Group Stock Option Plan*”.

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 second 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.

8. 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.

9. Proposed resolution

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

“In relation to the third 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 on the proposed resolution; and

- having acknowledged the certification of the Board of Statutory Auditors pursuant to art. 2438 of the Italian Civil Code; and

- having acknowledged the opinion of the independent auditors PricewaterhouseCoopers S.p.A. pursuant to art. 158 of Legislative Decree No. 58 of 24 February 1998;

resolves

1) to revoke the resolution to increase the share capital approved by the Extraordinary Shareholders’ Meeting of 5 December 2016;

2) to increase the share capital for valuable consideration, with partial subscription permitted and in one or more tranches, for a maximum nominal value of Euro 6,899,200 (six million eight hundred ninety nine thousand two hundred), through the issue of up to 8,960,000 (eight million, nine hundred and sixty thousand) new ordinary shares with no par value, regular entitlement, with exclusion of the subscription right pursuant to art. 2441, paragraphs 5 and 6 of the Italian Civil Code, to be reserved to beneficiaries of "Banca Farmafactoring Banking Group Stock Option Plan" (the "Stock Option Plan") approved by the Ordinary Shareholders' Meeting of 5 December 2016, as amended, at a price per share, inclusive of the share premium, to be determined by the Bank's Board of Directors upon exercise of the options in an amount equal to the formulas set out in the Stock Option Plan;

3) to set the date of 5 December 2028 as deadline for subscribing the shares referred to in paragraph 2), it being understood that, if the capital increase is not fully subscribed upon expiry of this deadline, the capital will be deemed to have been increased by an amount equal to the subscriptions hitherto collected, pursuant to art. 2439, paragraph 2, of the Italian Civil Code;

4) to amend art. 5 (five) of the By-Laws, by eliminating the current paragraphs 6, 7 and 8 and by inserting the following paragraphs [7] and [8]:

“[7]. The Extraordinary Shareholders' Meeting of the Company resolved to increase the share capital for valuable consideration, with partial subscription permitted, within the final deadline of 5 December 2028, with exclusion of the subscription right pursuant to art. 2441, fifth and sixth paragraphs, of the Italian Civil Code, to fund the implementation of "Banca Farmafactoring Banking Group Stock Option Plan" for a maximum nominal value of Euro 6,899,200, plus the share premium, through the issue, in one or more tranches, of up to 8,960,000 new ordinary shares without par value, at an issue price to be determined in accordance with the aforementioned "Banca Farmafactoring Banking Group Stock Option Plan".

“[8]. The Extraordinary Shareholders' Meeting of the Company also established that (i) if not fully subscribed by the final deadline of 5 December 2028, said capital increase shall stand to the extent of the subscriptions collected up to that date, and (ii) the Board of Directors is granted full powers (a) to establish the portion of the price to be recognized as capital and the portion to be recognized as share premium and (b) to establish, including by granting powers to one or more Directors, from time to time, the issue price of the shares (including the share premium), and the other terms and conditions for execution of the share capital increase in compliance with "Banca Farmafactoring Banking Group Stock Option Plan" and to make the ensuing amendments to this article, in order to adjust the share capital amount following the execution of the "Banca Farmafactoring Banking Group Stock Option Plan".

5) to 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 execution and completion of the 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 capital modifications 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)