

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

(CONVENED FOR 5 APRIL 2018 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 2017, to be held on 5 April 2018 at 11.00 hours in 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** (henceforth, 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.

This Report has been posted in 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 “*Investor Relations/Meeting Documentation*” on the Bank’s *website* (at *website* www.bffgroup.com, the “**Website**”), and at the centralized storage facility called “1info”, managed by Computershare S.p.A., available at www.1info.it.

In order to formulate proposals regarding the decision-making items outlined in this Report, Shareholders are asked to take account of the considerations and guidelines expressed to Shareholders by the outgoing Board of Directors on the future size and composition of the Company’s Board of Directors, as stated in the “*Guidelines on the qualitative-quantitative Composition of the Board of Directors: indications for Shareholders and the new Board of Directors*”, endorsed on 22 February 2018 and made available to the Shareholders in the section “*Investor Relations/Meeting Documentation*” of our website (the “**Guidelines for Shareholders**”).

This Report was approved by the Company’s Board of Directors on 22 February 2018.

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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 (available on the website, in the section “*Governance/Corporate Documents*”, the “**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 for Shareholders with regard to the optimal composition of the Board of Directors, therefore, asks you to set to 9 the number of members of the Board of Directors, which 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 guidelines addressing Shareholders on the optimal qualitative and quantitative composition of the new Board of Directors with respect to the Bank's targets, prepared in compliance with the "Prudential Supervision Provisions for Banks" pursuant to Bank of Italy Circular No. 285 of 17 December 2013,*

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 (2018, 2019, 2020), expiring on the occasion of the General Meeting that shall be convened to approve the financial statements for the year 2020”.

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 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 one percent of the Bank share capital are entitled to submit lists¹. 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, by lodging an 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, provided this is within the deadline set for their publication (i.e. by **15 March 2018**), by sending the aforementioned certification to the Company issued by the certified intermediaries.

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.

¹ Consob Resolution No. 20273 of 24 January 2018, available at <http://www.consob.it/web/area-pubblica/bollettino/documenti/bollettino2018/d20273.htm>

With particular regard of drawing up the lists and the composition of the Board of Directors, we recall you on the following.

Each candidate may only be included in one list, upon penalty of ineligibility.

Each list shall also comply with the following requirements:

- candidates who do not meet the requirements of probity and professionalism and independence shall not be included in the list of candidates, as provided for by Article 26 of Legislative Decree No. 385/1993, as subsequently amended;
- at least one fourth of the Directors so elected shall be in possession of the independence requirements as set forth for statutory auditors by Article 148, paragraph 3 of the TUF, as well as Article 3 of the Corporate Governance Code for listed companies (the “**Corporate Governance Code**”);
- the first candidate of each list shall be an individual meeting the aforementioned independence requirements;
- lists including a number of candidates equal to or higher than three shall include candidates of the less represented gender.

Together with each list, within the same deadline for submission, the following documents shall be deposited at 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, paragraph 3, and 148, paragraph 2, 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 revisions), as amended by Consob Resolution No. 14990 of April 14, 2005; the “**Issuers’ Regulations**”) with the latter;
- a declaration – in Italian and English – in which individual candidates (i) accept the candidacy and (ii) certify on their own liability that there is no cause of ineligibility and incompatibility,

and that they meet the requisites prescribed by law and By-Laws (of which a *facsimile* is attached to the Guidelines for Shareholders);

- an Italian and English *curriculum vitae* of each of the candidates, 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 for Shareholders, together with an indication of the directorships and audit appointments held in other companies, and the appropriateness to be qualified as independent.

Shareholders are invited, in determining the candidates for the position of Bank Director, and in presenting the relevant lists, to take into account the guidelines on the optimal qualitative and quantitative composition of the new Board of Directors with respect to the Bank's targets, as stated in the Guidelines for Shareholders, to which reference is expressly made.

Shareholders are also invited to consult the recommendations expressed in the Consob Communications DEM/9017893 of 26 February 2009², 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, depositing 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 “*Investor Relations/Meeting Documentation*”.

Lists submitted in regulatory form, along with the aforementioned documentation, is made available to the public at the registered offices of Borsa Italiana S.p.A., on the Bank's website in the section on “*Investor Relations/Meeting Documentation*” and on the *website* www.linfo.it, managed by Computershare S.p.A., by 15 March 2018, twenty-one days ahead of the date for the Meeting.

² Available at <http://www.consob.it/documents/46180/46181/c9017893.pdf/ddb9abda-9ee8-4880-88f8-f9083da6f9d7>.

Pursuant to Article 15, paragraph 10, of the By-Laws, the procedure for the appointment of the members of the Board of Directors is described below:

“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 stockholders who have presented or voted for the Majority List”.*

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 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 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, jointly with the relevant documentation requested by law and by the Company's By-laws, on penalty of disqualification, at least twenty five days before that scheduled for the Meeting, namely by the **11 March 2018**.

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.

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 guidelines on the personal and professional requirements and characteristics of the Chairman of the Board of Directors, as stated in the Guidelines for Shareholders, we invite you to appoint the Chairman of the Board of Directors following proposals that may also be formulated by Shareholders during the General Meeting.

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.”*

Note that the gross annual remuneration of each Director currently in office and with reference to the financial year 2017, established by the General Meeting resolution on 4 November 2015, is equal to Euro 35.000,00 in addition to the reimbursement of expenses.

The current Board of Directors abstains from making specific proposals in this regard and therefore invites Shareholders to determine the total annual remuneration to be divided among its members in accordance with the resolutions that will be taken on the subject by the Board itself and based on the proposals that may be formulated by Shareholders also during the General Meeting.

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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, as mentioned in Article 9 of the Corporate Governance Code endorsed by the Bank.

Milan, 22 February 2018

For the Board of Directors
THE CHAIRMAN
(Salvatore Messina)