

**BOARD OF DIRECTORS REPORT ON ITEM SIX ON THE AGENDA FOR THE  
GENERAL SHAREHOLDERS' MEETING  
(CONVENED FOR 5 APRIL 2018 ON SINGLE CALL)**

*Appointment of the Board of Statutory Auditors. Related and resulting resolutions*

## BOARD OF DIRECTORS REPORT

### 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 Statutory Auditors’ 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. []
2. []
3. []
4. []
  - 4.1. []
  - 4.2. []
  - 4.3. []
5. []
  - 5.1. []
  - 5.2. []
  - 5.3. []
  - 5.4. []
  - 5.5. []
6. *Appointment of the Board of Statutory Auditors. Related and resulting resolutions.*
  - 6.1. *Appointment of members of the Board of Statutory Auditors.*
  - 6.2. *Appointment of the Chair of the Board of Statutory Auditors.*
  - 6.3. *Determination of the remuneration for members of the Board of Statutory Auditors.*
7. []

*Courtesy translation*

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 of meeting, 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 six on the Agenda for the Meeting, concerning “*Appointment of the Board of Statutory Auditors. Related and resulting 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, authorising Shareholders to request a copy. It can also be accessed at “*Investor Relations/Meeting Documentation*” on the Bank’s website (at [www.bffgroup.com](http://www.bffgroup.com), the “**Website**”), and at the centralised storage facility called “1info”, managed by Computershare S.p.A., available at [www.1info.it](http://www.1info.it).

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

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## **6.1 Appointment of members of the Board of Statutory Auditors**

Appointment to the Board of Statutory Auditors follows the terms of Article 22 of the Bank’s Articles of Association (the “**Articles**”) and the current provisions, among other things providing that:

- (i) the Board of Statutory Auditors comprises three regular Auditors; at the time of appointment, the General Meeting is called on to elect two alternate Auditors;
- (ii) Statutory Auditors so appointed hold office for three years, their term ending on the date of the General Meeting called to approve the financial statements for their third year in the post;
- (iii) Outgoing Statutory Auditors may be re-elected.

Appointment to the Board of Statutory Auditors is based on lists tabled by Shareholders, each of which may contain a number of candidates not exceeding the number of Statutory Auditors for election, listed by progressive number.

*Courtesy translation*

Shareholders who, alone or together with other Shareholders, hold ordinary shares representing at least 1.1% of the Bank's capital, are entitled to submit lists<sup>1</sup>. Possession of the minimum holding required to present a list is determined according to the shares registered in the Shareholder's name on the date when the lists are filed with the Company, with deposit of special certification from the authorised intermediary. Possession of the holding on the date on which lists are presented with the Bank may also be evidenced following the deposit date, provided that this is within the term set for their publication (i.e. **15 March 2018**) by delivery to the company of the abovementioned certification from authorised intermediaries.

Shareholders may (including through an intermediary or a trust company, and those who are party to a shareholders' agreement in the terms of Article 122 of the TUF, and Shareholders in a single group, understood as parent company, subsidiary and a company subject to common control as provided for in Article 93 of the TUF) submit – or participate in submitting – and vote a single list. Subscription and votes breaching this prohibition may not be assigned to any list.

Specifically in connection with the preparation of the list and the composition of the Board of Statutory Auditors, the following is recalled in particular.

Pursuant to the current legislation, a candidate may, under threat of ineligibility, be presented on just one list.

Each list must in addition observe the following characteristics:

- candidates not meeting the requirements of probity, professionalism and independence provided for in Article 26 of Legislative Decree No. 385/1993 may not be included on the lists;
- a list containing more than one candidate will be divided into two sections: one for candidates for the post of regular Auditor and the other for that of alternate Auditor. The first candidate in each section must be identified among those posted in the register of Statutory Auditors and have been engaged in account auditing for not less than three years;

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

*Courtesy translation*

- pursuant to the provisions on gender balance, a list which contains three or more candidates in both sections must include candidates of varied gender on the list of both regular Auditors and of the alternate Auditors.

Along with each list and within the term for its submission, the following documents must be deposited in the Company's Offices:

- information on the identity of the Shareholders submitting the list, stating the total percentage shareholding<sup>2</sup>;
- a declaration by Shareholders other than those who, including jointly, possess a control or relative majority shareholding, that there are no links in the terms of 147-ter, point 3, and 148, point 2, of the TUF, and Article 144-quinquies of the “*Implementing Regulation, Legislative Decree No. 58 of 24 February 1998, concerning Issuer regulation*” (adopted by the Consob as resolution no. 11971 on 14 May 1999, and its successive amendments and additions, the (“**Issuer Regulation**”) 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, in the Articles and the “*Regulation of the Board of Statutory Auditors*”, including those on the accumulation of posts (of which a facsimile is attached to this report *sub* “A” and is available on the Website under “*Investor Relations/Meeting Documentation*”)<sup>3</sup>;
- a *curriculum vitae* – in Italian and English – from each candidate, signed and dated, containing comprehensive information on their personal and professional characteristics, along with skills acquired in the banking and financial sectors and/or in other relevant spheres<sup>4</sup>, specifying administrative and control positions held in other Companies.

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<sup>2</sup> Notification of such holding may also reach the Bank after the list is posted although this must be at least twenty-one days ahead of the date of the General Meeting (i.e. by 15 March 2018).

<sup>3</sup> Among other things, Article 6 of the “*Board of Statutory Auditors Regulation*” provides that Board of Statutory Auditors members may not possess a strategic interest in other Group companies (including those held even indirectly by the Bank) as defined in Bank of Italy Circular No. 285 of 17 December 2013.

<sup>4</sup> Sectors related to that of the Company, plus those mentioned in Ministerial Decree No. 162/2000 (referring to requisites for the Statutory Auditors' professionalism and experience), and those in Article 1 of the TUB. In the matter of professionalism requisites, see also, modified as necessary, “*Guidelines on the qualitative-quantitative Composition of the Board of Directors: indications for Shareholders and the new Board of Directors*” available on the Website at “*Investor Relations/Meeting Documentation*”.

Any changes made up until the date of the General Meeting must be notified promptly to the Company.

Shareholders are also asked to take account of the express recommendations in Consob Communication DEM/9017893 of 26 February 2009<sup>5</sup>, particularly with reference to the declaration regarding the absence of links, even indirect, pursuant to Articles 147-*ter*, point 3 and 148, point 2, of the TUF, and Article 144-*quinquies* of the Issuer Regulation, with Shareholders possessing including jointly a control or relative majority holding, and identifiable from the notification of relevant holdings as provided for in Article 120 of the TUF, or publication of shareholder agreements pursuant to TUF Article 122 .

Lists submitted which fail to observe the above provisions are deemed not to have been submitted.

If only a single list is presented, the Meeting will vote on it; should the list secure a relative majority, the candidates in each section of the list are elected regular and alternate Auditors; the chair of the Board of Statutory Auditors is assigned to the first person named on such list.

Should only one list have been submitted by 15 March 2018, or only lists of Shareholders linked in the terms of Article 144-*quinquies* of the Issuer Regulation, lists may be presented up to three days following that date (to **18 March 2018**). In these circumstances, the 1% threshold established for the presentation of lists is halved, to 0.5% of the Bank's capital.

The following is the procedure established for the appointment of the Board of Statutory Auditors, as provided for in Article 22 point 15, of the Articles:

- (a) from the list securing the largest number of votes (the majority list) two regular Auditors and one alternate are elected, in the order they appear on the list;
- (b) the remaining regular Auditor and the other alternate are elected from the list securing the largest number of votes following the majority list, not in any way associated, even indirectly, with those who submitted or voted for the majority list (the minority list), in the order they appear on that list.

Should more than one list secure the same number of votes, a new ballot will be held on those lists, by all those present at the Meeting and entitled to vote, and the candidates on the list receiving a simple majority are elected.

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<sup>5</sup> Available at <http://www.consob.it/documents/46180/46181/c9017893.pdf/ddb9abda-9ee8-4880-88f8-f9083da6f9d7>.

*Courtesy translation*

To appoint Statutory Auditors who for any reason are not elected by the established procedure, the Meeting shall resolve according to the legal majorities, in any event respecting the gender balance established in regulations.

Should the voting procedure fail to guarantee, considered separately, the regular and the alternate Auditors, the minimum number of Statutory Auditors from the less represented gender established in the rules, the candidate from the gender most represented and elected, last in order in each section of the majority list, is replaced by the candidate from the less represented and unelected gender from the same section on said list, in the order of presentation.

Each list, signed by the Shareholder or Shareholders presenting it, must be filed by them in the registered offices – attn. O.U. Corporate Affairs Secretariat – or delivered by certified email to [assemblea@pec.bancafarmafactoring.it](mailto:assemblea@pec.bancafarmafactoring.it), attaching the above documentation required by law and the Articles, on penalty of default, by **11 March 2018**, being the twenty-fifth day ahead of the date of the Meeting.

A list 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.1info.it](http://www.1info.it) managed by Computershare S.p.A., by 15 March 2018, twenty-one days ahead of the date for the Meeting.

Further information on the presentation, deposit and publication of lists can be found in point 22 of the Articles and in the notice of Meeting available on the Website, respectively, in the section on "*Governance/Corporate Documents*" and "*Investor Relations/Meeting Documentation*".

In the light of the foregoing, Shareholders are invited to proceed with the appointment of members of the Board of Statutory Auditors on the basis of the lists of candidates for said posts to be presented and published as provided for by law and in the aforementioned Articles.

## **6.2 Appointment of the Chairperson of the Board of Statutory Auditors**

Pursuant to Article 22 point 16, of the Articles, the chair of the Board of Statutory Auditors is assigned to the current member appearing as first candidate on the minority list (*i.e.* the list in second place by number of votes).

As indicated, if just one list is submitted, the General Meeting votes on it; if the list secures a relative majority, the chairmanship of the Board of Statutory Auditors is assigned to the person in first place on said list.

Should the chairperson of the Board of Statutory Auditors be replaced, the chair is taken over by the alternate on the minority list of the outgoing chairperson, in the order on that list, subject to possession of the legal requisites and/or those in the Articles for occupying the post, and compliance with the legally established gender balance.

### **6.3 Remuneration of members of the Board of Statutory Auditors**

According to Article 22 point 2 of the Articles of Association, the Annual General Meeting determines the compensation for the Board of Statutory Auditors.

As provided for in Application Criterion No. 8.C.3 of the Corporate Governance Code for listed companies issued by the Corporate Governance Committee created by Borsa Italiana S.p.A. (the “**Corporate Governance Code**”), the statutory auditors’ remuneration is to be commensurate with the commitment required, the profile of the role undertaken, and the company’s size and sector.

To these ends, based on the outgoing Board of Statutory Auditors’ indications, on average, in the three years 2015-2017, there were 20,33 Board of Statutory Auditors meetings. In addition, members of the Board of Statutory Auditors took part in an average of:

- 20.67 Board of Directors meetings;
- 15.7 Control and Risk Committee meetings;
- 1.33 Nomination Committee meetings;
- 9.67 Remuneration Committee meetings;
- 1.33 Committee to evaluate Transactions with Related Parties and Affiliates meetings.

In addition, some 4 days per annum were given over to training, along with the necessary commitment to preparing meetings in the light of the multiplicity of matters to be reviewed and the volume of documentation involved.

Total current Board of Statutory Auditors annual remuneration in the 2017 financial year was, set in debate by the General Meeting of 4 November 2015, 70,000 euros for the Board’s Chair, and 50,000 euros for each of the two regular Auditors.



*Courtesy translation*

You are thus invited to decide – in the light of proposals also made by Shareholders during the course of this Meeting – on the remuneration for the current members of the Board of Statutory Auditors.

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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 Code of Self-Discipline endorsed by the Bank.

Milan, 22 February 2018

For the Board of Directors  
THE CHAIRMAN  
(Salvatore Messina)

**ANNEX “A” – DECLARATION OF ACCEPTANCE OF THE CANDIDACY FOR THE POST OF AUDITOR**

With reference to the Annual General Meeting of Shareholders of Banca Farmafactoring S.p.A., convened in Milan, Via Domenichino No. 5, on 5 April 2018 at 11.00 hours on single call, and in relation to the candidacy for the post of Statutory Auditor for the 2018-2019 and 2020 financial years \_\_\_\_\_ on \_\_\_\_\_ the \_\_\_\_\_ list \_\_\_\_\_ submitted \_\_\_\_\_ by \_\_\_\_\_, I, the undersigned \_\_\_\_\_, with tax ID \_\_\_\_\_, born in \_\_\_\_\_ on \_\_\_\_\_, resident in \_\_\_\_\_, at \_\_\_\_\_, \_\_\_\_\_, post code \_\_\_\_\_,

**hereby declare as follows**

- that I hereby accept said candidacy and, if nominated, appointment as regular/alternate Auditor;
- that I am not a candidate on any other list tabled to these ends with said Meeting.

Furthermore, on my own responsibility,

**I hereby declare as follows**

- a) there is, pursuant to the law and the Articles of Association, no cause of ineligibility or relinquishment for said appointment, or incompatibility (in the latter case also in audit companies) for occupying the post of Statutory Auditor of Banca Farmafactoring S.p.A.;
- b) I am in compliance with the requisites in the current provisions<sup>6</sup> and in the Articles of Association for appointment as Statutory Auditor of Banca Farmafactoring S.p.A.;
- c) I do not hold administrative and control positions equal to or exceeding the current regulations (*i.e.* Article 148-*bis* of Legislative Decree No. 58/1998 and Article 144-*terdecies* of the Consob Regulation adopted in resolution No. 11971 of 14 May 1999);
- d) I do not hold position in competing companies or company groups in the terms of Article 36 of Legislative Decree No. 201/2011, converted into Act No. 214/2011 and operating in the credit, insurance and financial markets;

or

<sup>6</sup> Pursuant to Article 148 point 3 of Legislative Decree No. 58/1998, the following may not be appointed as auditors and, if appointed, they forfeit the post: (a) those in the situation foreseen in Article 2382 of the Civil Code; (b) the spouse, relatives and the like, up to four times removed, of company directors, directors, the spouse, relatives and the like up to four times removed, of directors of companies it controls, of the company controlling it and those subject to common control; (c) those linked to a company or companies controlled by it or which control it and those subject to common control, or company directors and those governed by item b) in independent or subordinate employment relationships or other patrimonial or professional links that compromise independence.

For further requirements of probity and professionalism, see Ministerial Decree No. 162 of 30 March 2000 (“*Regulation of rules on determination of the requisites for professionalism and probity of members of the Board of Statutory Auditors of listed companies, based on Article 148 of Legislative Decree No. 58 of 24 February 1998*”).

For further requirements of independence, see Articles 3 and 8 of the Listed Company Self-Discipline Code approved by the Corporate Governance Committee created and promoted by Borsa Italiana S.p.A. as last updated on 9 July 2015.

*Courtesy translation*

I hold office in competing companies or company groups pursuant to Article 36 of Legislative Decree No. 201/2011, converted to the Act No. 214 of 22 December 2011, operating in credit, insurance and financial markets, and henceforth undertake to relinquish such posts coinciding with possible appointment, or to certify that they are not incompatible, detailing the reasons;

- e) I meet the fit and proper requisites established for corporate bank representatives in Ministerial Decree No. 162/2000, and there is no conduct which, while not amounting to crimes, is in conflict with the principles established in Banca Farmafactoring S.p.A.'s "*Code of Ethics*" available on its website;
- f) referring specific to the requisites for professionalism,
- I am posted in the register of auditors and have been engaged in certified auditing activity for more than three years;
  - I am not posted in the register of auditors and, in this case, have acquired experience of at least three years in:
    - administration or control or management of stock companies with a share capital of not less than two million euros, or
    - professional or tenured university activity in legal, economic, financial and technical-scientific matters closely related to the Bank's activity, or
    - management functions in public bodies or the public administration operating in the credit, financial and insurance sectors in any event closely related to the Bank's activity;
- g) I am able to dedicate adequate time to the post of Statutory Auditor of Banca Farmafactoring S.p.A.;
- h) referring specifically to the limit on accumulation of appointments provided for in Article 148-*bis* of Legislative Decree No. 58/1998 and Article 144-*terdecies* of the Consob Regulation No. 11971/1999;
- i) not to hold office in the Banca Farmafactoring S.p.A. banking group (and in other companies in which the Bank has, even indirectly, a strategic participation pursuant to Bank of Italy Circular No. 285 of 17 December 2013) in bodies other than those engaged in supervisory functions;
- j) not to incur in situations of incompatibility established for public employees as provided for and for the purposes of Legislative Decree No. 165/2001 and successive amendments and additions.

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I, the undersigned also:

- undertake to notify promptly any variation in the information submitted herewith and, if required, to produce appropriate documentation confirming the veracity of the data provided;

*Courtesy translation*

- if appointed, to furnish a list of administrative and control posts held in other enterprises on the date of the General Meeting;
- if appointed, to resign immediately from any other position incompatible with that of Statutory Auditor of Banca Farmafactoring S.p.A.;
- pursuant to and for the effects of Article. 13 of Legislative Decree No. 196/2003, to authorise publication of the details and the information contained in this declaration, and all attached documentation, using the procedures set out in the applicable provisions, and the collection and processing, also with IT resources, of my personal information to the extent and for the purposes of the procedure for the appointment of members of the Board of Statutory Auditors of Banca Farmafactoring S.p.A., without preclusion of the latter's faculty to confirm its accuracy with the competent authorities. The data processing rights are held by Banca Farmafactoring S.p.A. with registered offices in Milan at Via Domenichino No. 5. Candidates for the post of Statutory Auditor may make use of their rights pursuant to Article 7 of said Legislative Decree to challenge the holder of the processing rights, contacting Gianni Domenico Marzi or Paola Sandra Golin.

Place and date

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Signed

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#### Annex

*Curriculum vitae*: this must contain exhaustive information on personal and professional details.

In particular: (i) registered data; (ii) education, with details of qualifications and skills, and the training received; (iii) professional experience, with details of activity in each (the name and type of organisation where the activity took place and the nature and duration of the activity), stressing particularly the professional experience acquired in relevant sectors; (iv) corporate positions (highlighting those of an executive nature) including those in bodies not pursuing mostly commercial objectives (associations, foundations, non-profit bodies) on the date of the declaration.

The experience suitably detailed in the curriculum vitae must evidence basic understanding of the banking sector required of all candidates.