

**EXPLANATORY REPORT OF THE BOARD OF DIRECTORS ON THE FOUR ITEM ON  
THE AGENDA OF THE ORDINARY SHAREHOLDERS' MEETING**

**(CONVENED FOR 28 MARCH 2019 ON SINGLE CALL)**

*Authorisation to purchase and dispose of treasury shares, subject to revocation, for the portion  
not executed, of the authorisation granted by the General Shareholders' Meeting on 5 April 2018.  
Related and resulting resolutions.*

Dear Shareholders,

the Board of Directors convened the Ordinary General Shareholders' Meeting at the registered office of Banca Farnafactoring S.p.A. (the "**Bank**" or the "**Company**") in Milan at Via Domenichino no. 5 (the "**Corporate Headquarters**"), **on single call** (the "**General Meeting**"), to debate and resolve, *inter alia*, on the proposal concerning authorisation to purchase and dispose of treasury shares in accordance with Articles 2357 and 2357-ter of the Italian Civil Code and Article 132 of Legislative Decree No. 58/1998 as subsequently amended (the Consolidated Financial Act, "**TUF**"), at the same time revoking the resolution of the Shareholders' Meeting of 5 April 2018 for the portion not executed, and without prejudice to any transactions carried out in the meantime.

Pursuant to Article 73 of the CONSOB Regulation adopted by resolution no. 11971/1999, as subsequently amended (the "**Issuer Regulation**"), the administrative body must, twenty-one days before the date set for a General Meeting called to resolve on the acquisition and disposal of treasury shares, make a report on the items on the Agenda, prepared in accordance with Annex 3A – Schedule 4 – of the Issuer Regulation, available to the public at the registered office, on the Company's website and as otherwise provided for by the CONSOB.

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## **1. The reasons behind the authorisation to purchase and/or dispose of treasury shares**

This request for authorisation (the "**Authorisation Request**") is aimed at authorising the Board of Directors to purchase and dispose of Bank's treasury shares in compliance with applicable legislation, also European, in from time to time<sup>1</sup>, so that the Company may:

- (a) directly or via intermediaries, carry out transactions to stabilise and/or maintain the liquidity of BFF's stock;
- (b) dispose of treasury shares to be used: (i) to service share incentive plans reserved for Company Directors and/or employees of the Company and/or of companies directly or indirectly controlled by it, in force from time to time, and (ii) to balance the variable remuneration of the "Risk Takers" in execution of the BFF Banking Group's incentive system

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<sup>1</sup> It is understood that the effective launch of the programme to purchase treasury shares may be resolved upon by the Board of Directors subject to the Bank of Italy authorisation pursuant to Article 78 of (EU) of Regulation no. 575/2013 of the European Parliament and Council of 26 June 2013 (the "**CRR**").

referred to in the “*Remuneration and Incentive Policy in favour of Members of the Strategic Supervision, Management and Control Bodies, and Personnel of the Banca Farmafactoring Banking Group*” in force from time to time, as well as

- (c) have a “securities store” to be used in the context of extraordinary transactions such as, for example, acquisitions, issue of bonds convertible into Company shares, or other transactions in relation to which it is necessary or appropriate to exchange or dispose of shares packages by, for example, exchange, conferral or some other acts of disposal and/or use.

The Authorisation Request also authorises the Board of Directors to perform recurring and successive acquisitions and sales (or other acts of disposal) of the shares in portfolio, also revolving and for fractions of the maximum authorised amount. Such transactions shall be carried out so that, at any time, the number of shares purchased and owned by the Company does not exceed the limits provided for by law and the General Meeting’s authorisation and is in compliance with the applicable legal and regulatory provisions<sup>2</sup>, market practices permitted from time to time<sup>3</sup>, and the regulatory provisions applicable to banks<sup>4</sup>.

## **2. The maximum number, class and par value of shares the authorisation refers to**

With reference to this Request for Authorisation it is proposed to purchase, in one or more tranches, a maximum number of Bank’s ordinary shares (the “**Treasury Shares**”) not exceeding no. 17,010,740 shares of zero par value.

In appraising compliance with the limit above, it will be necessary to take into account also any shares acquired by subsidiaries.

## **3. Useful information for assessing compliance with Article 2357, paragraphs 1 and 3 of the Italian Civil Code and Article 132 of the TUF**

The maximum amount of treasury shares referred to in this Authorisation Request is 10% of the 170,107,400 zero-par-value shares representing, on the date of this Report, the whole subscribed

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<sup>2</sup> By way of example, the TUF, the Issuer Regulation, (EU) Regulation no. 596 of 16 April 2014 concerning market abuse (the “**MAR**”), and (EU) Delegated Regulation no. 1052 of 8 March 2016 on the conditions applicable to buy-back of treasury shares and stabilisation measures.

<sup>3</sup> Reference should be made here to market practices permitted by the CONSOB in Resolution no. 16839 of 19 March 2009.

<sup>4</sup> On this aspect, by way of example, see (EU) Delegated Regulation no. 241 of 7 January 2014, adopted by the European Commission for the purposes of Articles 77 and 78 of the CRR and Part Two, Chapter I, Section VI of “Supervisory Provisions for Banks” (Circular no. 285/2013).

and paid up capital of the Bank's equal to 130,982,698.00 euros, and therefore the acquisition of treasury shares of this proposal is in line with Article 2357, paragraph 3 of the Italian Civil Code.

On the date of this Report, the Company has no. 361,304 treasury shares in portfolio.

Pursuant to Article 2357, paragraph 1 of the Italian Civil Code, the acquisition of treasury shares must fall within the limits of the distributable profit and available reserves according to the most recently-approved financial statements at the time of the transaction and comply with the terms of Article 132 of the TUF, as described more in detail in paragraph 6 of the Report.

In this regard, please see the draft financial statements for the financial year closed on 31 December 2018 (available on the Website under section "*Governance/General Meeting Documentation*"), assuming it will be approved by the General Meeting in the terms proposed by Board of Directors. According to said draft financial statements, reserves of 85.417 million euros are available.

The Board of Directors must also confirm compliance with the conditions in Article 2357, paragraphs 1 and 3 of the Italian Civil Code for the acquisition of treasury shares at the time when its launch is resolved upon.

On acquiring shares or their disposal, exchange, conferral or depreciation, the pertinent book entries must be made in compliance with the applicable legal and regulatory provisions (including the applicable accounting regulations and standards). Consideration for disposal, exchange, conferral or depreciation of the Bank's treasury shares may be used subsequently to purchase treasury shares, to the end of the term of the General Meeting's authorisation, subject to the limits on quantity and cost and the conditions established by the Meeting.

#### **4. The term for which authorisation is sought**

Authorisation to purchase treasury shares is requested for the maximum duration provided for by Article 2357, paragraph 2 of the Italian Civil Code, equal to 18 (eighteen) months as of the date of the General Meeting's resolution approving this Authorisation Request.

During that term, the Board of Directors may carry out treasury shares transactions described herein, in one or more tranches and at any time, to the extent and over a period freely determined, in compliance with the provisions of reference, including those of the Community, and market practice *pro tempore* in place, and with the timing judged to be in the Bank's interests.

Authorisation is requested for the transfer, disposal and/or use of treasury shares which may be in the portfolio and/or to be acquired without a time limit, given the absence of regulatory limitations

in this respect and the possibility of maximum flexibility, as well as in terms of the time frame for its possible disposal.

#### **5. Minimum and maximum consideration, and the market valuations on whose basis they are determined**

The Request for Authorisation to purchase treasury shares must comply with the pricing conditions in Article 3, paragraph 2 of EU Delegated Regulation No. 2016/1052, that is on the date of this Report, for a price not more than (i) that of the latest independent transaction or (ii) that for the highest current independent purchase offer on the Computerised Share Market organised and managed by Borsa Italiana S.p.A., whichever is higher, or in accordance with the provisions in place from time to time.

Purchases must in any case be at a per-share price that does not shift more than 20% below or above the reference price recorded for the security at the stock market session prior to each individual transaction.

#### **6. Purchase and disposal procedures**

The Authorisation Request requires acquisitions of treasury shares to be implemented on regulated markets, in the manner to be specified by the Board of Directors, with priorities deemed to be in the Bank's interests as permitted in law and regulations, including those of European rank, in place from time to time and therefore, among other things, the applicable provisions of the TUF, of the Issuer Regulation, of the MAR, of the aforementioned EU Delegated Regulation No. 1052 of 8 March 2016, along with market practice from time to time, and as applicable. In particular, in line with Article 132, paragraph 1 of the TUF, acquisitions of treasury shares must ensure that Shareholders are treated equitably. In this respect, among the procedures defined in Article 144-bis, paragraph 1 of the Issuer Regulation, share acquisitions may be implemented:

- a) in a public offer to purchase or exchange; or
- b) on regulated markets in the operating procedures established in the regulations organising and managing such markets, without direct matching of buy orders against predetermined sale orders.

Moreover, given the exemption in Article 132, paragraph 3 of the TUF, those procedures will not apply to purchases of treasury shares held by employees of the Company, of the subsidiaries or of the parent Company and assigned or subscribed in the terms of Articles 2349 and 2441, paragraph 8

of the Italian Civil Code, or resulting from compensation plans as provided for in Article 114-*bis* of the TUF.

This Authorisation Request also requires the following in assignment or other acts to dispose of or use any treasury shares in the portfolio or acquired with this authorisation:

(a) if paid in cash, to be for a price per share determined based on market practice criteria from time to time, or which in any event may not diverge, downward or upward, by more than 10% from the reference price posted for the security at the stock exchange session preceding each individual transaction;

(b) if implemented in the category of the extraordinary transactions in the terms of paragraph 1(c) above, for example, by exchange, conferral, swap or some other act of disposal and/or use, to be at the price limits and in the terms and conditions decided on by the Board of Directors;

(c) if part of share incentive plans or remuneration policy, to be assigned to the target of such plan or remuneration policy in the categories and terms indicated therein or according to the applicable policies and regulatory standards.

## **7. Information when an acquisition leads to a capital reduction**

This Authorisation Request is not a means of reducing capital.

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Now, therefore, the following motion is tabled for your approval:

*“The General Meeting of Banca Farmafactoring S.p.A., after examination of the Board of Directors’ Report on this item on the Agenda,*

### ***resolves***

- 1. to revoke the previous authorisation for the acquisition and disposal of Bank treasury shares granted on 5 April 2018 from the General Meeting, for the portion not executed as of the date of this resolution and without prejudice to any transactions carried out in the meantime;*
- 2. to authorise the Board of Directors – pursuant to and for the purposes of Article 2357 of the Italian Civil Code – to purchase Bank shares once or more, for a term of eighteen months as of the date of this Resolution, for the purposes mentioned in the Board of Directors’ report to today’s General Meeting on this item on the Agenda, on the following terms and conditions:*

- (i) *the maximum number of securities to be purchased is 17,010,740 Company's ordinary shares representing 10% of the shares into which the Bank's capital is divided, currently amounting to no. 170,107,400 zero-par-value ordinary shares; purchases shall be carried out within the limits of the distributable profits and available reserves according to the most recently duly approved financial statements;*
  - (ii) *acquisitions must be:*

    - *at the price conditions in Article 3, paragraph 2 of EU Delegated Regulation No. 2016/1052;*
    - *in any event at a price per share which may not vary, downward or upward, by more than 20% of the reference price listed for the security at the last stock market session prior to each individual transaction.*
  - (iii) *acquisitions must ensure that Shareholders are treated equitably, and take the form established in the provisions of reference, including those of the Community, and in current market practice, as indicated in the Board of Directors' report to today's General Meeting on this item on the Agenda;*
3. *to authorise the Board of Directors – as provided for and for the purposes of Article 2357-ter of the Italian Civil Code – to dispose of all or part of the portfolio treasury shares, once or more and without time limits, including before reaching the maximum of purchasable shares, plus possible buy-back of shares, to the extent that treasury shares held by the Company and as applicable by its subsidiaries, does not exceed the limit in the authorisation pursuant to point 2 above. Treasury shares in the portfolio may be disposed of and/or used for the purposes indicated in the Board of Directors' report submitted to today's General Meeting dealing with this item on the Agenda:*
- *if paid in cash, at a per-share price determined according to market practice criteria from time to time, or which in any event may not diverge, downward or upward, by more than 10% of the reference price posted for the security during the stock exchange session preceding each individual transaction;*
  - *if implemented in the category of extraordinary transactions pursuant to paragraph 1(c) above, for example, by exchange, conferral, swap or some other act of disposal and/or use,*

*to be at the price limits and on the terms and conditions decided on by the Board of Directors;*

*- if part of share incentive plans or remuneration policy, to be assigned to the targets of such plan or remuneration policy in the categories and terms indicated in such plans or according to the applicable policies and regulatory standards.*

4. *to grant the Board of Directors any powers needed to implement the aforesaid Resolutions, providing such as may be required, opportune, instrumental and/or related to the satisfactory implementation thereof, while disclosing the information demanded under the provisions of reference, including those of the Community, and currently accepted market practice”.*

Milan, 19 February 2019

For the Board of Directors

THE CHAIRMAN

(Salvatore Messina)