

CORPORATE GOVERNANCE AND SHARE OWNERSHIP REPORT
(on a traditional model of corporate governance)

Company **Banca Farmafactoring S.p.A.**

website: **www.bffgroup.com**

Financial year to which the Report refers: **01.01.2019 – 31.12.2019**

Approved on: **25.02.2020**

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GLOSSARY

Chief Executive Officer: is the "body charged with managing" the Parent Company, namely the member of the Board of Directors to whom - pursuant to the Civil Code and by statutory provisions - tasks of current management are delegated by this latter, intended as the implementation of the policies defined in discharge of the strategic oversight function.

Shareholders' Meeting: the Shareholders' Meeting of the shareholders of the Bank

Shares or Ordinary Shares: BFF Ordinary Shares.

Shareholders: the shareholders of the Bank.

Bank/BFF/Company/Issuer/Parent Company: Banca Farmafactoring S.p.A., a parent company of the Banca Farmafactoring Banking Group, whose shares are traded on the MTA.

BFF Lux or BFF Luxembourg S.à r.l.: the Luxembourg company controlled by *Centerbridge Partners Europe L.P.* (a fund belonging to the family of *private equity* funds included in the investment platform of Centerbridge Capital Partners), and ultimately managed by BFF JE GP Ltd. (Jersey), which, in turn, is the shareholder of the Bank which - with a 32.77% stake as at 31 December 2019, down to 21.809% as from 9 January 2020 (date on which the transaction for the sale of approximately 11% of the Shares held was completed, with settlement date 14 January 2020) - holds a significant stake in the share capital of the Bank.

BFF Finance Iberia or BFF FI: BFF Finance Iberia S.A.U. (formerly Farmafactoring España S.A.U.), a company incorporated under Spanish law, whose capital is wholly owned by the Bank.

BFF Polska or BFF PL: BFF Polska S.A. (formerly Magellan S.A.), a company incorporated under Polish law, whose capital is wholly owned by the Bank.

Borsa Italiana: Borsa Italiana S.p.A., the privately owned company is responsible for the organization and management of the Italian stock exchange and for the trading of financial instruments.

Branch: collectively, the Polish Branch, the Portuguese Branch, the Spanish Branch.

Polish Branch: "Banca Farmafactoring S.P.A. *Spółka Akcyjna Oddział w Polsce*", the branch of the Bank based in Lodz.

Portuguese Branch: "Banca Farmafactoring S.P.A. – *Sucursal en España*", the branch of the Bank based in Lisbon.

Spanish Branch: "Banca Farmafactoring S.P.A. – *Sucursal em Portugal*", the branch of the Bank based in Madrid.

Circular No. 263: the Circular of the Bank of Italy No. 263 of 27 December 2006 ("*New Prudential Supervision Provisions for Banks*"), as subsequently amended.

Circular No. 285/Supervisory provisions: the Circular of the Bank of Italy No. 285 of 17 December 2013 ("*Supervisory provisions for banks*"), as subsequently amended.

Italian Civil Code: the Italian Civil Code adopted by Royal Decree of 16 March 1942, No. 262, as subsequently amended.

Code/Code of Conduct: the new version of the Code of Conduct of Listed Companies, approved in March 2006 by the Committee for *Corporate Governance*, and promoted by, as last updated on July 2018.

Board of Statutory Auditors: the Board of Statutory Auditors of the Bank.

Board/Board of Directors: the "body entrusted with strategic supervision" of the Bank. The corporate body to which - pursuant to the Italian Civil Code and by statutory provision - are assigned management functions of the Bank, through, inter alia, the examination and resolution of the industrial and financial plans, or strategic operations.

Subsidiary/ies: the Companies belonging to the Group.

Chief Reporting Officer: the Corporate Accounting Documents Officer pursuant to Article 154-*bis* of the TUF.

Provisions on Corporate Governance: Part 1, Title IV, Chapter 1 ("*Corporate Governance*") of the Supervisory provisions

Fit and Proper Decree: the Ministerial Decree containing the "*Regulations on the requirements and criteria of eligibility for the engagement of corporate officers of banks, financial intermediaries, credit unions, electronic money institutions, payment institutions and deposit guarantee schemes* , pursuant to Articles 26, 110, paragraph 1-*bis*, 112, paragraph 2, 114-*quinquies*.3, paragraph 1-*bis*, 114-*undecies*, paragraph 1-*bis*, 96-*bis*.3, paragraph 3, of the Legislative Decree 1 September 1993, No. 385 (CBA)", pending the issue.

Financial Year: the financial year to which the report refers (2019).

Corporate and control functions: collectively, the *Compliance* and *AML* function, the *Risk Management* function, the *Internal Audit* function and other control departments, namely, taken

as a whole, the obligatory corporate functions that, for legislative, statutory, regulatory or self-regulation provisions, have control tasks in the Group.

Compliance and AML function: the corporate function of compliance with regulations and the prevention and countering of the implementation of money laundering and terrorist financing operations, assigned to the Parent Company's *Compliance* and *AML* function.

Internal Audit function: the internal audit function assigned to the Parent Company's *Internal Audit* function.

Risk Management function: the corporate risk control function assigned to the Parent Company's *Risk Management* function.

Company Functions or Business Structures: all the Group's corporate structures, such as, for example, the Departments, the Functions and the Organizational Units.

Banca Farmafactoring Banking Group/Group/BFF Group: collectively, the Bank and its Subsidiaries.

BFF Polska Group : the BFF Polska Group is made up of the BFF Polska parent company, a Polish company active in the field of loans to the National Health Service and local authorities, and its subsidiaries: (i) BFF MEDFinance S.A.; (ii) BFF Central Europe S.R.O.; (iii) BFF Česká Republika S.R.O.; (iv) Debt-Rnt S.p Z.O.O.; (v) the Kancelaria Prawnicza Karnowski i Wspólnik Spółka Komandytowa law firm, (vi) Restrukturyzacyjna Prawnicza Karnowski Wspólnik sp.k., and (vii) the Muncypalny Fundusz Inwestycyjny Zamkniety closed-end fund, with offices in Poland, Czech Republic, and Slovakia.

CRR Group: the BFF Group with regulatory consolidation of BFF Luxembourg S.à r.l., through which Centerbridge Partners L.P. has its participation in the Bank.

ICAAP: the “*Internal Capital Adequacy Assessment Process*”, or the internal process of determining the capital adequacy of the Parent company, which carries out an independent existing and future assessment, also at CRR Group level, of their capital adequacy, in relation to the risks assumed and the company strategies, in accordance to the effects of the Supervisory Provisions.

ILAAP: the “*Internal Liquidity Adequacy Assessment Process*”, or the internal process of determining the adequacy of the Government system of and liquidity risk management of the Parent company, which carries out an independent evaluation, existing and future, even at the

CRR Group level, on governance and liquidity risk management, in relation to risks assumed and corporate strategies in accordance with Supervisory Provisions.

IOS Finance / IOS: IOS Finance S.A.U., a company incorporated under Spanish law active in credit management and factoring services without recourse to national healthcare providers and other public administration entities in Spain, acquired in 2019 by BFF and subsequently merged into BFF FI, on 31 December 2019.

Model 231 / Model: the organization, management and control model, approved by the Board of Directors on 23 February 2004, and most recently updated on 24 September 2019, prepared in compliance with the provisions of Legislative Decree no. 231/2001, as well as the guidelines issued by ASSIFACT, ABI and Confindustria, in accordance with best practices in the industry.

MTA: the Screen-based Stock Market managed by Borsa Italiana.

Guidance for Shareholders: the guidelines issued by the outgoing Board of Directors on the qualitative-quantitative composition deemed optimal, brought to the attention of the Shareholders before the appointment of the new Board of Directors, so that the choice of candidates can take into account the required skills and expertise

Supervisory Body/SB: the Supervisory Body set up by the Bank pursuant to Legislative Decree No. 231/2001, as subsequently amended.

Corporate Bodies: collectively, the Board of Directors, the Chief Executive Officer and the Board of Statutory Auditors.

Stock Option Plan or SOP: the “*Stock Option Plan in favor of directors, employees and managers of the Company and its subsidiaries*” approved by the Board of Directors on 8 July 2016 and by the Shareholders' Meeting on 5 December 2016, as subsequently amended by the Shareholders' Meeting on 28 March 2019.

Most Significant Personnel or Risk Takers: categories of personnel whose professional activity has or may have a significant impact on the Group risk profile, identified in accordance with Regulation (EU) No. 604/14 and the internal rules.

Remuneration policy: the remuneration and incentive policy adopted for the members of the strategic supervision, management and control bodies and the staff of the Banca Farmafactoring Banking Group.

Board Diversity policy: the “*BoD diversity policy of Banca Farmafactoring S.p.A.*” adopted by the Board of Directors and drawn up in accordance with Art. 123-bis), sub 2, letter d-bis) of

the TUF, governing (i) the composition of the administrative and management bodies of the Bank in relation to issues such as, for example, age, gender, or educational and professional background, (ii) this policy targets on diversity, (iii) implementation procedures, and (iv) arrangements for monitoring the results achieved during the reporting period

IPO: the process ended on 4 April 2017 with the institutional placement of the Bank's ordinary shares, aimed at establishing the free float necessary for negotiating the Company's shares on the MTA, which was launched on 7 April 2017.

RAF: the *Risk Appetite Framework* (risk objectives system), or the document approved by the Bank's Board of Directors, which defines, at Group level, risk appetite, tolerance thresholds, risk limits, risk management policies, reference processes necessary to define and implement them, consistent with the maximum risk assumable, the *business model* and the strategic plan.

Recovery Plan: the plan adopted by the Bank, which governs strategies and actions to be taken in the event of a significant deterioration of the Group's equity and financial situation, to ensure, among other things, restoration.

Regulation of the Board of Directors: the “*Regulation of the Board of Directors*” adopted by the Board, in order to regulate the composition and operation of the aforementioned body, in accordance, inter alia, with the principles set forth in the Corporate Governance Provisions. The Regulation of the Board of Directors is published on the Bank's *website* at the following address: <https://it.bffgroup.com/en/board-of-directors-regulation>.

Regulation of Corporate Bodies, Control Functions and Information Flows / ROA: the “*Regulation of Corporate Bodies, Control Functions and Information Flows*”, adopted by the Board of Directors, in order to regulate duties and responsibilities of the Corporate Bodies and Control Functions, as well as the information flows between them, and towards the Control and Risk Committee, and the Supervisory body. The ROA is published on the Bank's *website* at the following address: <https://it.bffgroup.com/en/board-of-directors-regulation>.

Consob Issuers' Regulation: the Issuers' Regulations, issued by Consob with resolution No. 11971 of 1999, as subsequently amended.

Consob Market Regulations: the Market Regulation, issued by Consob with resolution No. 20249 of 2017.

Consob Related Party Regulation: the Regulation on transactions with related parties issued by Consob with resolution No. 17221 of 2010, as subsequently amended.

Report: the Report on Corporate Governance and Share Ownership that companies are required to prepare under Article 123-*bis* of the TUF.

Remuneration Report: the “*Annual report on the remuneration and incentive policies of and the fees paid by the Banca Farmafactoring Banking Group*”, prepared under Article 123-*ter* of the TUF, Article 84-*quater* of the Consob Issuers' Regulation, and of the provisions pursuant to Title IV, Chapter I, Table 15, of Circular No. 263, available on the *website* in the section “*Governance/Meeting Documentation*”.

Internal Control System/ICS: the set of rules, functions, structures, resources, processes and procedures aimed at ensuring, in compliance with sound and prudent management, the achievement of the objectives identified in the Supervisory Provisions on the internal control system, such as, among other things, risk management.

Website: the Bank’s *website*, at the following www.bffgroup.com.

Audit firm: the independent auditor PricewaterhouseCoopers S.p.A., the firm in charge of the statutory audit of the Bank's accounts.

By-Laws: the Bank's By-Laws, in force at the time of this Report. The By-Laws are published on the *website* at the following address: <https://it.bffgroup.com/en/articles-of-association>.

Consolidated Banking Act/CBA: the Legislative Decree of 1 September 1993, No. 385 – “*Consolidated Act on banking and credit provisions*”, as subsequently amended.

Consolidated Law on Finance/TUF: the Legislative Decree of 24 February 1998, No. 58 – “*Consolidated Law on Financial Intermediation*”, as subsequently amended.

CORPORATE GOVERNANCE AND SHARE OWNERSHIP REPORT YEAR 2019

PREAMBLE

This Report, approved by the Board of Directors on 25 February 2020, was prepared pursuant to Article 123-*bis* of the TUF, and Code of Conduct¹ (to which the Bank adheres as follows), as well as in compliance with the indications contained in the “*Format for the Corporate Governance and Share Ownership Report*” (Year January 2019) prepared by Borsa Italiana, with the aim of providing an overview of the ownership structure of the Company and the corporate governance system adopted by this latter.

The Report is also aimed at fulfilling the public disclosure obligations envisaged for banks by the Corporate Governance Provisions, to which BFF, is subject as a bank. Unless otherwise specified, the information contained therein refers to the date of its approval by the Board of Directors.

The Report is, therefore, submitted to the approval of the Shareholders' Meeting called on 2 April 2020, in single call. To this end, the Report shall be made available to the public at the Bank's registered office and published on the *website* at the section “*Governance/Meeting Documentation*”.

The information contained in this Report, unless otherwise specified, refers to the date of its approval by the Board of Directors.

1. PROFILE OF THE ISSUER

1.1 PARENT COMPANY

The Company, established in 1985, and listed on the stock exchange since 2017, is a leader in Italy in **management and non-recourse factoring, of trade receivables** from the Public Administrations and, in particular, the Italian Healthcare Service.

The Bank, thanks to the important international development of recent years, operates in several European countries. In particular, it is present abroad through its Branches in Madrid, Lisbon and Łódź, and through its subsidiaries in Spain, Poland, the Czech Republic and Slovakia. The Bank also offers *retail* and *corporate* customers **deposit products** in Italy, Spain, Germany, the

¹ The Code of Conduct is available on the website of the Corporate Governance Committee at: <http://www.borsaitaliana.it/borsaitaliana/regolamenti/corporategovernance/codice2018.pdf>

Netherlands, Ireland and Poland² and carries out cross border activities in France, Greece and Croatia. In particular, the Bank:

- in 2010, established BFF FI to carry out the *non-recourse factoring business* in Spain;
- from 2013, obtains the authorization to carry out banking activities, requested with the aim of continuing with the corporate strengthening process to guarantee the services offered to its customers and to the reference market. At the same time, the Bank was registered in the Banking Group Register as "*Banca Farmafactoring Banking Group*";
- in 2014, the **deposit account online** "*Conto Facto*" was launched in Italy, to increase the diversification of funding sources, and started to operate in Portugal under the freedom to provide services;
- in 2015, establishes the Spanish Branch, through which the collection activity through the deposit account *online* "*Cuenta Facto*" is launched in the local market. During the same year, an important change takes place in the shareholding structure: the controlling package is transferred to BFF Lux;
- in 2016, through the Spanish *Branch*, the collection activity through the *online* deposit account was launched in Germany, and acquires the BFF Polska group as part of the Group's commercial and geographical diversification strategy;
- in 2017, the IPO is completed;
- in 2017 began operating under the freedom to provide services in Greece, in 2018 in Croatia, and in 2019 in France, the Netherlands and Ireland.
- in 2018 and 2019 establishes the Portuguese Branch and the Spanish Branch, respectively.
- in 2019, through the Spanish Branch, starts the collection activity in the Netherlands and Ireland through the online deposit account "*Cuenta Facto*" and completes the acquisition of IOS Finance, merged by incorporation into BFF FI, on 31 December 2019, which has taken over all the assets and liabilities belonging to IOS since 1 January 2020.

BFF is a leader in innovation, customer service and execution in its reference markets, with a low risk profile and high operational efficiency, in line with corporate governance best practices.

² As specified more in detail hereafter, the collecting activity is carried out by the Bank: in Italy, through the online bank account *Conto Facto* and, in Spain, Germany, the Netherlands and Ireland with *Cuenta Facto*, and (iii) in Poland through *Lokata Facto*.

The Bank qualifies as a *less significant* credit institution under Art. 6, par. 4 of Regulation (EU) No. 1024/2013, entrusting the European Central Bank with specific tasks relating to the prudential supervision of credit institutions

As a listed company, the Bank falls – for the purposes of prudential supervision by the Bank of Italy in corporate governance – among the larger banks and operational complexity while qualifies as intermediary bank for the purposes of the guidelines on remuneration and incentive policies and practice referred to Circular No. 285.

The governance model adopted is the traditional one, based on two Corporate Bodies appointed by the Shareholders' Meeting: the Board of Directors (body with strategic supervision and management function of the company) and the Board of Statutory Auditors (body with control function). The corporate *governance* also provides that the Board of Directors designates among its members a Chief Executive Officer, who is entrusted with the management of the company.

The Board of Directors also resolved to set up the SB and the following Board committees, charged with examining, advising and proposing duties with respect to the Board of Directors and, for limited aspects concerning the Remuneration Committee, the Chief Executive Officer:

- the Remuneration Committee;
- the Nomination Committee;
- the Risks and Control Committee;
- the Committee for the Evaluation of Transactions with Related Parties and Associated Persons.

The statutory audit of the accounts is entrusted by the Shareholders' Meeting to the Audit Firm.

Please note, that the Issuer qualifies as a "SME" pursuant to Art.1, par. 1, lett. w-c.1) of the TUF, - as can be seen from the list of SMEs published on Consob's website, on the basis of the consolidated turnover, equal to Euro 245,280,277 for the year 2018, whereas market capitalization exceeds the threshold of Euro 500 million permitted by law.³

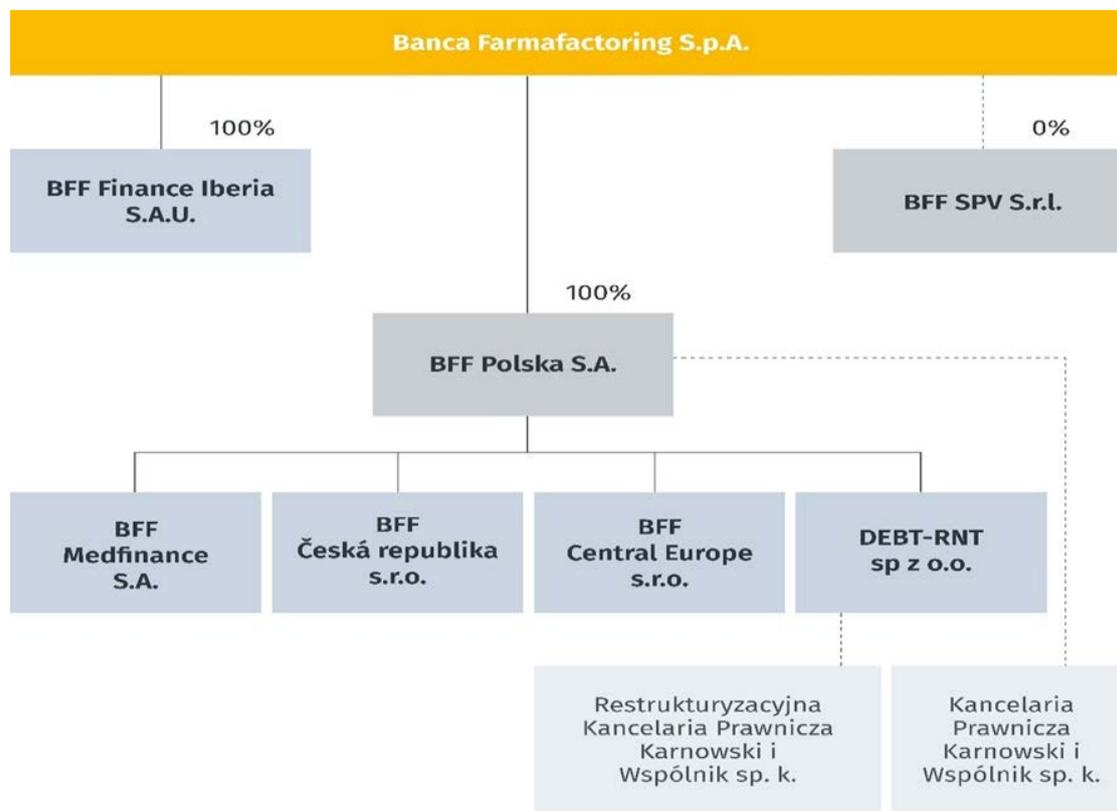
³ In accordance with Art. 1, par. 1, lett. w-c. 1) of the TUF qualify as "SMEs", small and medium-sized enterprises, listed issuers, whose annual turnover, even prior their admission to trading of their shares, is less than Euro 300 million, which means that they have a market capitalization of less than Euro 500 million.

1.2 THE BFF GROUP

The Issuer is registered in the Banking Groups Register, as per Article 64 of the CBA, as parent company of the Banca Farmafactoring Banking Group, which includes the Issuer, BFF Finance Iberia and the BFF Polska Group, as well as the specific company BFF SPV S.r.l..

The following graphically represents the Group, with an indication of the investments held by the Issuer at the date of this Report.

Group structure



Source: <https://investor.bffgroup.com/it/struttura-del-gruppo>

As parent company of the BFF Group, the Bank, in addition to banking, performs, pursuant to Article 60 et seq. of the CBA and the provisions of Part 1, Title I, Chapter 2, Section II, of Circular No. 285, the management and coordination functions, as well as the unitary control of BFF FI and BFF Polska.

For the aforementioned purposes, the Board of Directors approved the “*Infra-group Regulation*”, which defines the organizational architecture, the objectives and the contents of the management, coordination and control activities, and the “*Group Regulations*”, which

regulate the regulatory sources within the Bank - as the Parent Company of the BFF Group - and its Subsidiaries, defining, in particular, the hierarchy and the methods of adoption and updating.

The “*Infra-group Regulation*” is intended to ensure the realization of the unitary business plan of the Group as a whole and the development of the *business*, through the exercise, by the Parent Company, of its role of government over the subsidiaries, ensuring their direction, coordination and control. In the aforesaid activity, the Company promotes the single Subsidiaries and the Group as a whole, orienting the policies of development and management according to objectives of operational efficiency and sustainable profitability over time. The *management* of the Subsidiaries contributes to the achievement of the Group's objectives.

In particular, the Parent Company, in its capacity as the referent of the Supervisory Authority, issues the provisions necessary to implement the general and specific instructions issued by the Bank of Italy in the interest of the Group's stability to the Subsidiaries, pursuant to Article 61, paragraph 4, of the CBA and the Circular No. 285.

The Company is not subject to management and coordination by other legal entities (as specified in Section 2.10 of this Report), albeit including BFF Luxembourg s. à r.l in the CRR Group.

2. INFORMATION ON OWNERSHIP STRUCTURE (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, TUF) AS AT 31 DECEMBER 2019

2.1 SHARE CAPITAL STRUCTURE (UNDER ARTICLE 123-BIS, PARAGRAPH 1, LETTER A), TUF)

The subscribed and paid up share capital of the Bank as at 31 December 2019 amounts to Euro 131,326,409.06 divided into n. 170,553,778 **Ordinary Shares** with no par value, all representing the same fraction of capital. Ordinary shares are issued in a dematerialized form pursuant to Article 83-*bis* of the TUF, are indivisible and freely transferable. Each Share assigns the right to one vote in the Ordinary and Extraordinary Shareholders' Meetings of the Company, as well as the other administrative rights provided by the applicable law provisions, and the By-Laws.

With regard to share-based incentive plans, which involve increases in share capital, it should be noted that the Shareholders' Meeting, on 28 March 2019 (the "**2019 Shareholders' Meeting**"), resolved, *inter alia*, to:

- increase the share capital for cash, in divisible form, for a maximum of Euro 6,899,200 (six million eight hundred ninety-nine thousand two hundred), through the issue, even in several *tranches*, of maximum no. 8,960,000 (eight million nine hundred and sixty thousand) new shares, excluding the option right pursuant to Article 2441, paragraph 5 and 6 of the Italian Civil Code, in the service of the implementation of the Stock Option Plan, not later than the 5 December 2028 deadline, (the "**Paid Capital Increase**"), subject to revocation of the paid capital increase approved by the Shareholders' Meeting on 5 December 2016;
- authorise the Board of Directors, pursuant to Article 2443 of the Italian Civil Code, to increase the share capital, free of charge, on one or more occasions, including in a divisible manner, until 27 March 2024, by issuing a maximum of 3,900,000 Shares, for a maximum amount of Euro 3,003,000 (the "**Free Capital Increase**"), to service the following purposes related to the Group's remuneration and incentive policies:
 - (i) the satisfaction of the need to balance the cash component with the financial instruments component, which may be due as variable compensation to the Group's Most Significant Personnel pursuant to the "Management by Objective" provided for in the Remuneration Policy;

- (ii) any allocations of Shares to Group employees (under, for example, stock grant plans), and
- (iii) the cash-less exercise of the SOP

(the "**2019 Capital Increases**").

The 2019 Shareholders' Meeting also approved the one-off free allotment, for a maximum of 240,000 Shares, to Group employees, in a single solution (the "**Stock Grant Plan**").

On 8 April 2019, the Board of Directors partially executed the proxy for the Free Capital Increase, resolving, in particular, to increase the share capital free of charge for an amount equal to Euro 1,015,272.72, through the issue of 1,318,536 new Shares to be assigned to the employees of the BFF Group for needs related to the variable remuneration and incentive policies.

With regard to the SOP, it should be noted that the Board of Directors assigned a total of 8,561,580 options in three tranches over the three-year period 2017-2019, against a maximum of 8,960,000 options that could be assigned.

The exercise phase of the options began last April 8, with reference to 40% of the first tranche options assigned on the date of the Quotation, and will end in 2025, when the period for the exercise of the last portion equal to 20% of the third tranche options expires.

A total of 266,936 Shares were allocated from the start of the exercise period to 31 December 2019, against 1,187,982 options exercised, based on the 2019 Capital Increases.

At 31 December 2019 the number of options assigned and not yet exercised amounted to 7,457,574, of which 1,359,896 were vested and exercisable.

As regards the Free Capital Increase, as at 31 December, a total amount of Euro 202,831.86, corresponding to 263,418 Shares, has been subscribed in exchange for the issue of:

- 83,976 Shares, following the exercise of 921,046 SOP options in cash less mode;
- 28,642 Shares for the payment of MBO - *management by objectives*;
- 150,800 Shares to beneficiary employees participating in the Stock Grant Plan.

As regards the **Paid Capital Increase**, at 31 December 2019, an amount of Euro 140,879.20 was subscribed, corresponding to 182,960 Shares, against the exercise of a corresponding number of SOP options, exercised in ordinary mode.

For more information regarding: (i) the options assigned, please refer to the analytical tables on "Stock options assigned to members of the Board of Directors, General Managers and other

executives with strategic responsibilities" in Section II, paragraph 3 of the Remuneration Report), (ii) the SOP and the Stock Grant Plan, please refer to the illustrative reports and information documents prepared pursuant to article 84-bis of the Issuers' Regulations, available on the Bank's website among the 2019 Shareholders' Meeting documents, published on the website at the address: <https://it.bffgroup.com/en/shareholders-meeting-28-march-2019>.

Finally, we inform you that, pursuant to Article 5, paragraph 5 of the By-Laws, the Extraordinary Shareholders' Meeting may resolve the issue of *warrants*, within the limits and under the conditions prescribed by the Bank of Italy, provided that the exercise of same happens within five years from the relative issue.

At the end of the financial year, the Bank holds No. 330.776 ordinary treasury shares.

At 31 December 2019, the share ownership is as follows (over 5%):

SHAREHOLDER	SHARES NO.	% ON CAPITAL
BFF Luxembourg S.à r.l.	55,896,108	32,77% ⁴

It should be noted that at 31 December 2019 management held a total of 4.44%⁵ of the share capital, while the free float was 62.79%.

For the sake of completeness, it should be noted that the total aggregate shareholding of the Chief Executive Officer in the Bank's capital, as reported in the related communication pursuant to art. 120 TUF from Mr. Belingheri, consists of (i) voting rights relating to shares, and (ii) the potential shareholding held by him⁶ would be equal to 6.32%, compared to 170,107,400 Shares issued by BFF at the time.⁷

2.2 RESTRICTIONS ON THE TRANSFER OF SHARES (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER B), TUF)

The shares of the Company are freely transferable. There are no ownership limitations and acceptability clauses.

⁴ On 9 January 2020, following the sale of 18,700,000 Shares, as part of an accelerated bookbuilding procedure, BFF Lux's interest in the Bank fell to 21.809% (settlement date 14 January 2020).

⁵ Includes the Shares of the Chief Executive Officer and his close associates, and 7 other executives with strategic responsibilities.

⁶ The potential shareholding held by the CEO consist of a call option on Ordinary Shares owned by BFF Lux, equal to 2.08% of the share capital, and the options granted to him in execution of the SOP.

⁷ Notice of a significant holding, available at: http://www.consob.it/web/area-pubblica/quotate/documenti/Partecipazioni_giornaliere/2019/pub_2_dicembre_2019.xml?xsl=partRilevanti.xsl&p_p_id=ConsobPubblicazioni_WAR_consobpubblicazioni_INSTANCE_MX5G5vF1agLh&p_p_state=maximiz ed

On 6 April 2018, the CEO and some Issuer' *managers* took against BFF Lux a *Lock-up* Commitment, for three years. For more information, refer to Paragraph 2.7.

2.3 SIGNIFICANT SHAREHOLDINGS (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER C), TUF)

Based on the communications received pursuant to Article 120 of the TUF and the information available to the Company, and without prejudice to Section 2.1 above, the only Shareholder who holds (directly or indirectly) a percentage of shareholding, with voting rights, more than 5% of the share capital is BFF Lux, as detailed in Table 1 – “Information on share ownership” attached to the Report.

2.4 SECURITIES THAT GIVE SPECIAL RIGHTS (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER D), TUF)

No securities have been issued conferring special control rights or special powers. The By-Laws do not provide multiple or increased voting shares.

2.5 EMPLOYEE SHAREHOLDINGS: MECHANISM FOR THE EXERCISE OF VOTING RIGHTS (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER E), TUF)

There is no system of employee shareholding in which the right to vote is exercised by their representatives.

2.6 RESTRICTIONS ON VOTING RIGHTS (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER F), TUF)

The By-Laws do not provide restrictions on voting rights.

2.7 AGREEMENTS BETWEEN SHAREHOLDERS (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER G) TUF)

On 6 April 2018, the Managing Director and some managers of the Bank (the "**Managers**") signed agreements with BFF Lux (the "**Agreements**", subsequently amended on 14 January 2020⁸) according to which the latter have committed to not dispose, for a maximum period of three years, of a significant proportion of the shares then held by them (the "**Lock-up**").

More in detail, the Agreements provide for the commitment of each Manager (including through a third party), without the prior written consent of BFF Lux, for a maximum period of three years, not to (i) transfer ,or otherwise dispose of, directly or indirectly, the respective

⁸ On 14 January 2020, changes to the essential information of the Agreements were published on the Website, with evidence of the amendments, pursuant to article 131, paragraph 2, of the Issuers' Regulations.

Lock-up Shares (the "**Locked-up Shares**") or any financial instrument is convertible into or exchangeable/exercisable for their respective Locked-up/Shares; (ii) enter into any agreement or transaction or **swap** involving (also on conditional basis) the transfer, in whole or in part, directly or indirectly, of the proceeds generated from the possession of their Locked-up Shares, of whether the transactions described above are to be settled by delivery of Shares or other financial instruments, whether cash or otherwise; and (iii) publicly announce the intention to carry out any of the above.

The Lock-up will expire early if BFF Lux's stake in the Bank's capital falls below 20%.

The Agreements, which cover shareholders' agreements subject to Art. 122, paragraph 5, letter. b) of the TUF, were communicated to Consob and to the public as well as and filed with Register of Milan on 11 April 2018, in accordance with the recalled Art. 122 of the TUF.

For more information about the Agreements, please refer to the documentation, available at the following *website* : <https://investor.bffgroup.com/en/shareholders-agreements>.

2.8 CHANGE OF CONTROL CLAUSES (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH I, LETTER H), TUF) AND PROVISIONS CONTAINED IN BY-LAWS ON TAKEOVER BIDS (PURSUANT TO ARTICLE 104, PARAGRAPH I-TER, AND ARTICLE 104-BIS, PARAGRAPH I)

Certain loan agreements of BFF Polska and its subsidiaries contain clauses providing that on the occurrence of certain material events (including the possible loss of the Bank's control over the BFF Polska group), the lender will have the right to: (i) terminate the related loan contract; (ii) suspend the right of the beneficiary to use their current account (*overdraft facility*); (iii) request the establishment of new and additional guarantees; or, as the case may be, (iv) declare the forfeiture of the acceleration clause.

* * *

As regards Takeover Bids, it should be noted that the Bank's bylaws do not provide the following:

- i)* exceptions to the provisions on the *passivity rule* provided by Article 104, paragraphs 1 and 1-*bis*, of the TUF;
- ii)* the application of the neutralization rules under Article 104-*bis*, paragraphs 2 and 3, of the TUF.

2.9 MANDATES TO INCREASE THE SHARE CAPITAL AND AUTHORIZATION TO BUY TREASURY SHARES (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH I, LETTER M), TUF)

On 28 March 2019, the Shareholders' Meeting approved, among other things, the amendment to Article 5 of the By-Laws, concerning the Free Capital Increase, with regard to which reference should be made to section 2.1 above.

* * *

On 28 March 2019, the Shareholders' Meeting authorized the Bank to purchase treasury Shares in compliance with Article 2357 of the Italian Civil Code. (the“**Authorisation by the Shareholders’ Meeting**”). Below are the essential terms of the aforementioned resolution:

- *duration of the authorization*: 18 (eighteen) months;
- *maximum number of shares that may be acquired*: 26,196,539
- *purchase price of each share*: may not differ, nor decreasing, or increasing, by more than 20% compared to the reference price recorded by the share in the stock exchange session prior to each individual transaction.

The Bank may not acquire treasury Shares except within the limits of distributable profits and available reserves resulting from the latest financial statements, duly approved.

At the end of the year 2019, the Bank holds No. 330,776 treasury shares.

2.10 MANAGEMENT AND COORDINATION ACTIVITIES (PURSUANT TO ARTICLE 2497 ET SEQ. OF THE ITALIAN CIVIL CODE)

As stated, inter alia, in Section 1.2 of this Report, the significant shareholding held by BFF Lux in the Issuer's share capital is equal to 32.77% on the closing date of the financial year, then reduced to 21.809% as from 9 January 2020⁹.

The Issuer considers that it is not subject to management and coordination activities pursuant to art. 2497 of the Italian Civil Code and subsequent articles, since, among other things, the Issuer operates in conditions of complete corporate and entrepreneurial independence, without interference from persons outside the Company itself.

* * *

The information required by Article 123-*bis*, first paragraph, letter i), of the TUF are contained in Section II, paragraph 2 subparagraph 2.4 of the Remuneration Report and the information required by Article 123-*bis*, paragraph 1, letter l) of the TUF are provided in Section 4.1 of this Report, devoted to the Board of Directors.

⁹ Date on which the accelerated bookbuilding operation was completed. The settlement date of the operation was 14 January 2020.

3. COMPLIANCE (PURSUANT ARTICLE 123-BIS, PARAGRAPH 2, LETTER A), TUF)

Starting from the IPO date, the Bank adheres to the Code of Conduct, which is available on the *website* of the *Corporate Governance* Committee promoted by Borsa Italiana at the following address:

<http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

* * *

BFF's *corporate governance* structure is not influenced by legal provisions other than Italian or European Union regulations.

BFF Polska and BFF FI, 100% controlled by the Issuer, are companies established under Polish and Spanish law respectively, and are therefore subject to the laws of said countries. This, however, does not in any way affect the *corporate governance* structure of the Bank.

4. BOARD OF DIRECTORS

4.1 APPOINTMENT AND REPLACEMENT (ARTICLE 123-BIS, PARAGRAPH 1, LETTER L), TUF)

4.1.1 Appointment of the Board of Directors.

The By-Laws¹⁰ provide that the Company is administered by a Board of Directors made up of a number of members established by the Shareholders' Meeting, which in any case cannot be less than 5 (five) or more than 13 (thirteen).

The members of the Board of Directors hold office for a period, not exceeding 3 (three) years, established at the time of appointment, and expire on the date of the Shareholders' Meeting called to approve the financial statements relating to the last financial year of their charge, and are re-eligible.

The **appointment of the BFF Directors** takes place, as required by the By-Laws, on the basis of the list voting mechanism, and the composition of the Board of Directors ensures the following:

- all the Directors met the requirements of integrity and professionalism required by current legislation;
- there is No. 1 (one) Minority Director, because, at the end of the vote, the candidates of the two lists that obtained the highest number of votes are appointed, according to the following criteria: (A) from the list that has obtained the majority of the votes expressed (so called the “**majority list**”) a number of Directors equal to the total number of members to be elected, except one, shall be taken, in the progressive order with which they are listed in the same list; (b) the remaining Director shall be taken from the second list that obtained the highest number of votes in the meeting (so called the “**minority list**”), that is not connected in any way, not even indirectly, with those who presented or voted for the majority list;
- the gender balance; in fact, if the application of the slate voting mechanism does not ensure the appointment of directors belonging to the less represented gender, at least to the minimum extent envisaged by Law No. 120/2011, the candidate belonging to the most represented gender elected as the last in the majority list, is replaced by the first candidate belonging to the less represented and unelected gender, taken from the same list,

¹⁰ Articles 14 et seq. of the Bank's By-Laws, available on the *website* at the following address: <https://it.bffgroup.com/en/articles-of-association>.

according to the progressive presentation order; failing that, by the first candidate of the less represented and unelected gender, taken from the other lists, according to the number of votes obtained by each. 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;

- the existence of independent Directors, at least in the minimum number provided by regulations, including regulatory provisions, in force, replacing, where necessary, 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.

Finally, if these procedures do not ensure gender balance and/or the existence of the minimum number of independent Directors required by the regulations, the replacement takes place by means of a resolution passed by Shareholders' Meeting with a relative majority, following the presentation of candidates belonging to the gender less represented, or meeting independence required by law.

The procedure for appointing and replacing Directors is also governed by the By-Laws¹¹, where the following is pointed out.

Appointments are made on the basis of lists presented by the outgoing Board of Directors and/or shareholders, each of which contains a number of candidates not exceeding the number of members to be elected, listed by a progressive number.

The filing of lists of candidates for the office of Director at the registered office shall take place in accordance with Article 147-ter of the TUF, within the twenty-fifth day preceding the date

¹¹ The Shareholders' Meeting held on 28 March 2019 approved, in extraordinary session, the project to amend the By-Laws in order to give the outgoing Board of Directors the power to submit a list of candidates for the appointment of the Board of Directors.

of the Shareholders' Meeting called to resolve on the appointment of the members of the Board. The lists are made available to the public at the registered office, on the *website* and with the other methods provided by current legislation, at least twenty-one days before the date of the Shareholders' Meeting. In the case of submission of lists by shareholders, only those Shareholders who, alone or together with other Shareholders, may hold Shareholders representing a percentage of at least 2.5% of the Issuer's share capital, or the smaller extent required by the regulatory provisions issued by Consob may present lists (Article 144-*quater* of the Consob Issuer's Regulation).

Any list submitted by the Board of Directors must be filed and made public in the same manner as for shareholders' lists at least thirty days prior to the date set for the Shareholders' Meeting called to resolve on the appointment of the members of the Board of Directors (i.e. five days prior to the ordinary legal deadline for the filing of lists by shareholders), in order to offer shareholders a longer period for the evaluation of proposed candidates. The list is accompanied by a specific document describing the opinions expressed by the Nomination Committee and the Board of Directors, and the process adopted to identify the candidates.

In compliance with current regulations, the Board of Directors, for the purposes of both the appointment and the co-option of its members, defines, following the self-assessment process described below, with the contribution of the Nomination Committee, its qualitative and quantitative composition considered optimal for the effective performance of tasks and responsibilities entrusted to the administrative body by law, the Supervisory Provisions and the By-Laws, identifying and justifying the theoretical profile of the candidates (including the characteristics of professionalism and possible independence) deemed appropriate for these purposes.

In its Regulations, the Board of Directors has also established the requirements that the BFF Directors shall meet, in addition to those required by applicable law¹², and has expressed its orientation regarding the maximum number of positions that may be held in other companies by Directors themselves (Article 7 *et seq.* of the Rules of the Board of Directors).

¹² Reference is made to articles 147-*ter*, paragraph 4, and 148 of the TUF, as well as the provisions contained in the Ministerial Decree 18 March 1998, No. 161 (the "M.D. No. 161/1998") and in the Ministerial Decree 30 March 2000, No. 162 (the "M.D. No. 162/2000"), as well as to Article 26 of the CBA and the Code of Conduct.

The Board, prior to the appointment of the new Board of Directors, brings the Guidance for Shareholders to the attention of the Shareholders, in order to obtain an adequate composition of the Board of Directors in terms of, inter alia, skills, experience, age, gender and international projection.

Obviously, this is without prejudice to the right of the Shareholders to carry out independent and different assessments of the optimal composition of the administrative body, justifying the differences between the candidates and the indications provided by the Board of Directors.

When the Shareholders' Meeting does not do so, the Board of Directors shall elect a Chairman from among its non-executive members, who shall meet the requirements of independence under the TUF, and may elect a Deputy Chairman from among its non-executive members.

4.1.2 Replacement

If one or more Directors came to lack during the year, they are replaced in accordance with Article 2386 of the Italian Civil Code, without prejudice to compliance with the minimum total number of independent Directors and gender balance provided by law. If, however, the majority of the Directors appointed by the Shareholders' Meeting cease to exist, the entire Board of Directors shall expire with effect as from its reconstitution, and the Shareholders' Meeting shall be called without delay to appoint a new Board of Directors.

In the event of co-optation, the curricula of the co-opted directors, the results of the analysis carried out with regard to the qualitative and quantitative composition deemed optimal, and their verification after their appointment, the indications contained in the Board of Directors' Diversity Policy, and the opinions of the Nomination Committee shall be provided to the first Shareholders' Meeting following the co-optation itself.

4.1.3 Succession Plans

At its meeting on 20 December 2017, the Board of Directors approved the “*Succession Plan for the Chief Executive Officer*” (the “**Succession Plan**”), composed of: (i) “*Contingency Plan*”, aimed at identifying (a) the actions to be carried out immediately following the occurrence of a definitive or temporary impediment, and (b) the person appointed to take over provisionally to the Chief Executive Officer, for the period necessary for the appointment of a new Chief Executive Officer in cases of definitive impediment, or until the termination of the impediment, in cases of temporary impediment; (ii) “*Succession Planning*”, which establishes the actions to

be undertaken for the identification and appointment of a new Chief Executive Officer in the event of an ascertainment of a definitive impediment.

The Succession Plan provides, *inter alia*, that:

- if a temporary or definitive impediment occurs to the Chief Executive Officer, the Deputy Chairman of the Board of Directors will provisionally take over the Managing Director, and will be granted by the Board of Directors powers for the management of the Company and for the coordination of the activities of the Subsidiaries;
- upon the occurrence of a definitive impediment ascertained by the Board of Directors, the latter will resolve the early termination of the Chief Executive Officer and, having previously obtained appropriate indications regarding the replacement of the Chief Executive Officer by the Nomination Committee, will co-opt one of the identified candidates, whose appointment will have to be confirmed by the first subsequent Shareholders' Meeting;
- alternatively, if the definitive impediment is ascertained by the Board of Directors within 90 days prior to the date of an already scheduled Shareholders' Meeting, the Board of Directors has the right to refer to the Shareholders' Meeting the appointment of the replacement of the Chief Executive Officer ceased.

The Succession Plan is reviewed annually by the Nomination Committee, which informs the Board of Directors for the purpose of taking the related resolutions.

It should be noted that the Succession Plan was updated by the Board of Directors on 28 November 2019 - after examination by the Nomination Committee - in order to give an account of the positions held by the Managing Director in the companies of the Group, as well as to implement the amendment to Article 15 of the By-Laws, approved by the Shareholders' Meeting on 28 March 2019, which introduced the power for the outgoing Board of Directors - on the occasion of the full renewal of the Board of Directors - to submit a list of candidates for the appointment of the Board itself.

4.2 COMPOSITION (ARTICLE 123-BIS, PARAGRAPH 2, LETTERS D) AND D-BIS), TUF)

The outgoing Board of Directors, in view of the administrative body renewal, taking due account of the results of the Self-assessment process (defined *below*) for the year 2017, expressed to Shareholders, before the meeting convened *inter alia* for appointing the Board of

Directors (held on 5 April 2018), the Guidance for Shareholders by publishing the “*Guidelines on the qualitative and quantitative composition of the Board of Directors: pointers to shareholders and the new Board of Directors*” (the “**Shareholders' Guidelines**”), available on the *website* under section “*Governance/Meeting Documentation*”.

The Board of Directors consists of (i) executives, (ii) non-executive and (iii) independent Directors, in compliance with a diversification principle also in terms of experience, gender, skills, age, geographical origin and international projection.

The Board of Directors was appointed by the Ordinary shareholders' Meeting on 5 April 2018 by applying the voting list mechanism (as described in section 4.1 above, and in Art. 14 et seq. of the By-Laws), as well as in full compliance with the provisions on gender balance within administrative and control bodies of listed companies, pursuant to Arts. 147-*ter*, par. 1- *ter*, and 148, par. 1-*bis* of the TUF.

For the appointment of Board members, two lists were submitted¹³, respectively by:

- BFF Luxembourg S.à r.l., proposed to the Meeting the following candidates: (i) Mr. Salvatore Messina, (ii) Mr. Massimiliano Belingheri, (iii) Mr. Luigi Sbrozzi, (iv) Mr. Ben Carlton Langworthy, (v) Ms. Gabriele Michaela Aumann, (vi) Ms. Barbara Poggiali, (vii) Mrs. Isabel Aguilera, (viii) Mr. Federico Fornari Luswergh, and (ix) Giampaolo Zambelletti Rossi (“**List No. 1**”);
- Studio Legale Trevisan, on behalf of a group of minority shareholders, consisting of institutional investors, which is not related to the List No. 1, who allegedly represent 4.189% of the Bank’s share capital, proposed to the Meeting the following candidates: (i) Mr. Carlo Paris and (ii) Mrs. Chiara Frigerio (“**List No. 2**”).

The List No. 1 has the highest number of votes equal to 47.60%, while the List No. 2 has obtained a number of votes equal to 18.47% of the Bank's share capital represented at the Meeting, corresponding to 68.02% of the Bank's share capital itself¹⁴.

The **Board of Directors in office**, thus appointed by the Ordinary Shareholders' Meeting on 5 April 2018, comprised the following No. 9 (nine) members:

13 For further information, refer to the lists available on the following *website*:

<https://it.bffgroup.com/en/shareholders-meeting-5-april-2018-new>.

14 The reported data are approximate by excess or by default to the second decimal place. For more information, please refer to the summary of the Meeting votes of 5 April 2018, available at the following *website*

<https://it.bffgroup.com/en/shareholders-meeting-5-april-2018-new>.

Mr. Salvatore Messina	Chairman and Independent Director
Mr. Luigi Sbrozzi	Vice Chairman and non-Executive Director
Mr. Massimiliano Belingheri	Chief Executive Officer
Mr. Ben Carlton Langworthy	Non-executive Director
Mrs. Gabriele Michaela Aumann	Independent Director
Mrs. Barbara Poggiali	Independent Director
Mrs. Isabel Aguilera	Independent Director
Mr. Federico Fornari Luswergh	Independent Director
Mrs. Carlo Paris	Independent Director

During the year, and specifically on 9 December 2019, Mr. Luigi Sbrozzi resigned as Director and Deputy Chairman.

On 11 December 2019, the Board of Directors co-opted Ms. Giorgia Rodigari to replace the outgoing Director, pursuant to Article 2386 of the Italian Civil Code, and appointed Mr. Federico Fornari Luswergh, former Director, as Deputy Chairman.

At **31 December 2019** the Board of Directors in office was composed as follows:

Mr. Salvatore Messina	Chairman and Independent Director (*)
Mr. Federico Fornari Luswergh	Vice Chairman and non-Executive Director (*)
Mr. Massimiliano Belingheri	Chief Executive Officer
Mr. Ben Carlton Langworthy	Non-executive Director
Ms. Giorgia Rodigari	Independent Director
Mrs. Gabriele Michaela Aumann	Independent Director
Mrs. Barbara Poggiali	Independent Director
Mrs. Isabel Aguilera	Independent Director
Mr. Carlo Paris	Independent Director

(*) Independent Directors pursuant to the TUF, as specified in section 4.6.

For the sake of completeness, it should be noted that some of the current members of the Board of Directors have already held the office of Directors of the Issuer prior to the aforementioned appointment. Particularly: (i) Mr. Salvatore Messina was appointed for the first time as Director and Chairman of the Issuer's Board of Directors on 14 January 2013; (ii) Mr. Massimiliano Belingheri was appointed for the first time as non-executive Director of the Issuer on 19 December 2006 and, as of 24 December 2013, he became Chief Executive Officer; (iii) Mr. Federico Fornari Luswergh was appointed for the first time Director of the Issuer on 24 April 2010; (iv) Mrs. Michaela Gabriele Aumann was appointed for the first time Director of the

Issuer on 21 December 2015; (v) Mr. Ben Carlton Langworthy was appointed for the first time Director of the Issuer on 4 November 2015.

The Board of Directors, as described above, will remain in office in its current composition until the approval of the financial statements for the year ended 31 December 2020, with the exception of Ms Giorgia Rodigari, who will remain in office until the next Shareholders' Meeting, without prejudice to the possibility that, on that occasion, her appointment may be confirmed.

The Board of Directors verified, on the basis of the declarations made by the Directors at the time of appointment, the existence of the requirements, *pursuant to* Article 26 of the CBA, of professionalism and honorability referred to in the M.D. No. 161/1998 and to the M.D. No. 162/2000, and, according to some Directors, of independence pursuant to Article 148, paragraph 3 of the TUF and of Art. 3 of Corporate Governance Code, as well as the absence of causes of incompatibility (including those provided in Article 36 of Decree Law No. 201/2011) on *interlocking* matters) and compliance with the limit on the number of offices referred to in Article 7 et seq. of the Regulations of the Board of Directors.

The composition of the Board of Directors, with reference to the number of Directors who shall meet the independence requirements reflects the provisions of Section IV, point 2.2, lett. c), of the Corporate Governance Regulations¹⁵, as well as the TUF and the Code of Conduct.

Pursuant to the Board of Directors' Regulations, in addition to the professional qualifications required by current legislation, Directors shall meet at least one of the following requirements:

- a) adequate knowledge of the banking sector, of the dynamics and of the economic-financial system, of banking and financial regulation and, above all, of risk management and control methods, acquired through long-term experience of administration, management and control in the financial sector;
- b) experience gained in the management of operations aimed at facilitating the sale, management and collection of receivables, in particular for health service providers and for the Public Administration;

15 Point 2.2, lett. c) of Section IV of the Corporate Governance Provisions, in fact, provides that: “*In the body with strategic supervision function, at least a quarter of the members shall meet the independence requirements*”, and where this ratio is not a whole number, **is rounded down to the nearest whole number if the first decimal is equal to or less than 5**, otherwise, is rounded up.

- c) experience of business management and business organization acquired through a long-term activity of administration, management or control in companies, groups of substantial worth, or in the Public Administration;
- d) reading and interpretation skills of economic-financial data acquired through long-term experience of administration and control in companies or the exercise of professional or university teaching activities;
- e) international experience and knowledge of foreign markets acquired through multi-year entrepreneurial or professional activities at foreign institutions or institutions, international companies or groups.

The Board of Directors has verified that its members met at least one of the above requirements. Finally, as a general rule, the Board of Directors considered the actual composition resulting from the nomination process meeting the qualitative and quantitative composition deemed optimal, indicated in the Guidelines to Shareholders.

In addition to the information on the composition of the Board of Directors shown in Table 2 – “Structure of the Board of Directors and its Committees” attached to this Report, pursuant to Article 144-*decies* of the Consob Issuers' Regulation, the main personal characteristics and professional profiles of each Director are shown below (whose *curricula vitae* were published in the form of a notice on the *website* in the section “Governance/Governance Structure / Board of Directors”).

Salvatore Messina (President, independent)	<p>High Official of the Order of Merit of the Republic of Italy and lawyer. He graduated with honors in Law at the University of Catania. In 1971, he began his activity in the Bank of Italy, where he held many and varied functions until becoming, in July 2004, director of the Milan branch of the Institute. During his activity at the Institute, he also coordinated and was part of numerous corporate study groups on issues of institutional importance; he also represented the Institute as a speaker at conferences and seminars organized by public and private bodies and members of the financial and academic world. He left the Bank of Italy in 2011. From 18 April 2012 until 30 June 2014 was an independent member of the Board of Directors of Banca Esperia S.p.A. He was also a member of the Supervisory Body pursuant to Legislative Decree No. 231/2001 of Banca Monte dei Paschi di Siena S.p.A. (from 25 May 2012 to 18 April 2018) and in essentially all Group companies. He is Chairman of the Issuer since 14 January 2013. From 1 October 2015 is Chairman of the Board of Directors of Diners Club Italy S.r.l. Currently, he is a member of the supervisory body pursuant to</p>
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	<p>Legislative Decree No. 231/2001 of Unicredit S.p.A. and Fineco Bank S.p.A., controlled by Unicredit S.p.A.. From the academic year 2011/2012, he is a lecturer of Institutions of Public Law and European economic law at the Faculty of Banking, Finance and Insurance Sciences of the Università Cattolica del Sacro Cuore of Milan. From 10 July 2018 is Director of the Italian Banking Association.</p>
<p>Federico Fornari Luswergh (Deputy Chairman)</p>	<p>He graduated with honors in Economics and Business from La Sapienza University in Rome in 1989. He is registered in the Order of Chartered Accountants since 1990, and in the Register of Accounting Auditors since 1992. In 1990, he started his professional career in Deloitte & Touche S.p.A.. Between 1994 and 2002, he held several positions, at national and international level, in the finance and management control area within the Goodyear Group in Italy, U.S.A., and Belgium, until becoming <i>chief financial officer</i> of the Italian group and president of Goodyear Italiana S.p.A. Between 2002 and 2007, he was general manager of the centralized services of Industria Farmaceutica Sero S.p.A., with responsibilities in the field of Finance and HR, Procurement, Legal, IT, and from 2007 to today is <i>chief financial officer</i> of Merck Sero S.p.A. and the Italian Merck Group companies. He was a member of the Board of Directors of Goodyear Italiana S.p.A, Goodyear Dunlop Tires Italiana and Industria Farmaceutica Sero S.p.A.. He is currently Chief Executive Officer of Merck S.p.A. and director of Merck Sero S.p.A., of the A. Marxer Biomedical Research Institute "RBM S.p.A.", Merck Life Science S.r.l., Versum Materials Italia S.r.l. e Fonchim - Complementary Contribution Pension Fund for employees of the chemical and pharmaceutical industries and similar sectors. By 2018, is a lecturer in "<i>Corporate Governance & Corporate Finance</i>" at the Luiss Guido Carli University, Department of <i>Economy & Finance</i>, and <i>Business & Management</i>.</p>
<p>Massimiliano Belingeri (Chief Executive Officer)</p>	<p>He graduated with honors in Economics of Public Administrations and International Institutions at the Bocconi University in Milan in 1997, spending a period also at the Wharton School of the University of Pennsylvania in Philadelphia. He began his professional career as a <i>business analyst</i> at McKinsey & Company, in Milan and London. In 2001, he obtained an MBA (Baker Scholar) at the Harvard Business School. After the MBA, he joined Apax Partners in the financial services <i>team</i> being promoted to <i>partner</i> in 2007. In 2008, he assumes responsibility for the financial services <i>team</i> in Europe. Apax Partners has followed several investment and divestment operations, mainly in the financial services and <i>media</i> sectors. He was a director of Azimut Holding S.p.A. from 2002 to 2004, and of Psagot Investment House from 2011 to 2013. He is a Director of the Issuer since December 2006, and Chief Executive Officer since December 2013. He is a board member and member of the executive</p>

	committee of Assifact, as well as a director of the Spanish Chamber of Commerce in Italy.
Isabel Aguilera (Independent Director)	She graduated in architecture and urbanism at the University of Seville, and earned an MBA from the Instituto de Empresa in Madrid. From 2006 to 2008, she was <i>general country manager</i> of Google Inc. in Spain and Portugal and, then, President of General Electric in Spain and Portugal. Previously, she held positions at NH Hotel Group, as <i>chief operating officer</i> , Dell Computer Corporation, as <i>Chief Executive Officer</i> , and Airtel and HP Compaq. After having acquired extensive management experience, she became a member of the Board of Directors and independent consultant to many organizations, as well as associate professor at ESADE and Deusto Business School. Currently, she is an independent director at Oryzon Genomics S.A. and Lar España Real Estate Socimi S.A. (listed companies in Spain), CEMEX (listed company in Mexico e in U.S.), HPS (listed company in Morocco) e Making Science (a Spanish private company).
Gabriele Michaela Aumann (Independent Director)	She graduated in Economics (specialized in <i>Finance and Banking</i>) at the University of Augsburg in 1977. She was <i>head of credit department</i> at the Bayerische Landesbank in Munich from 1991 to 1998. She held various positions within the same Institute, as follows: <i>head of credit department large corporates and energy</i> (1998-2002), <i>head of lending department globals</i> (in 2003) and <i>global division head of credit and collateral services</i> (from 2004 to 2008). Subsequently, she was general manager of the Milan office of the same Bayerische Landesbank from 2008 to 2014.
Ben Carlton Langworthy (Non-executive Director)	He graduated with honors from Yale University - where he was elected a member of Phi Beta Kappa - in 2000, and then earned an MBA from Harvard Business School. After his studies, he worked with <i>mergers & acquisitions</i> departments of Donaldson, Lufkin & Jenrette and Credit Suisse First Boston, and was later <i>associated</i> with the <i>private equity</i> group of Soros Fund Management. He joined Centerbridge Partners in 2006, where he holds the position of <i>senior managing director</i> in charge of the <i>private equity</i> in Europe. He was a non-executive director of Senvion S.A., Resort Finance America LLC and Cepal Holding S.A. He is currently a non-executive director of FB Lux Holdings S.C.A, Fortuna Holdings Limited and Fortuna Topco Limited -- which belong to the Canopus Group Limited --, and Phoenix Holding Limited.
Carlo Paris (Independent Director)	Doctoral degree with honors in Mechanical Engineering at “La Sapienza” University in Rome; Master in Business Administration at American University in Washington; Executive Master in Social Entrepreneurship at Università Cattolica del Sacro Cuore in Milan and Master in Professional Coaching, plus training courses at Bocconi and Insead. He developed professional experience both in domestic and international management of private equity

	<p>investments, as well as <i>no profit</i> and social finance projects. He was Board Member of many companies. He held many operating and strategic positions at Chase Manhattan Bank, Banca Nazionale del Lavoro Group and Unicredit Group. He was <i>advisor</i> of Vegagest SGR S.p.A. for the management of <i>private equity</i> funds; founder and Chief Executive Officer of Paris & Partners S.r.l., for internationalization, <i>M&A</i> and financial advisory, particularly in India and Brazil; founder and <i>Chief Executive Officer</i> of Argy Venture Capital S.r.l.; co-founder with Unicredit of Aurora Private Equity S.A. and CEO of Investimenti S.p.A.. He is currently board member of ENAV S.p.A. and chairman of the remuneration and nomination committee and member of sustainability committee. Both in ENAV S.p.A and Banca Farmafactoring S.p.A he is an Independent Board Member designated by minority.</p>
<p>Barbara Poggiali (Independent Director)</p>	<p>She graduated at the Massachusetts Institute of Technology (MIT), with multiple engineering degrees S.B. in 1984, S.M. in 1985 and PhD in 1987. She began her professional career first at McKinsey and then at Bain. From 1995 to 2000 she was at Omnitel (now Vodafone Italy) as Head of Strategy and Head of <i>Consumer Marketing and Sales</i>. She then joined E.Biscom S.p.A. (now Fastweb) as <i>Chief Operating Officer</i> until 2002, and then Cable and Wireless Plc. as <i>Mobile Services Group Director</i>. From 2004 to 2011 she was in RCS Mediagroup as <i>Chief Development Officer</i> and, finally, from 2009 to 2011 as CEO and General Manager of Dada S.p.A.. From 2014 to 2017 she was <i>Head of Strategic Marketing</i> at Poste Italiane S.p.A., and Chairman of PosteMobile. She is currently non-executive board member of various publicly traded companies: Falck Renewables S.p.A. (since 2012), SnaiTech S.p.A. (since 2013),ASTM (since 2013) Elica S.p.A. (since 2018) and Fabrick S.p.A. (since 2018); she is also director of Bocconi University. From January 21 2019 she is head of <i>cybersecurity</i> division of Leonardo S.p.A..</p>
<p>Giorgia Rodigari (Non-executive Director)</p>	<p>She graduated with honors in Nuclear Engineering at the Milan Polytechnic. She began her career in the investment banking division of Goldman Sachs in London. In 2012 she joined the private equity firm Centerbridge Partners as an associate; in 2014 as principal, and in January 2018 as managing director, contributing to the start of investment activities in financial services. Over the years she has focused mainly on the financial services sector, as well as healthcare and insurance. Ms. Rodigari has played a leading role in a number of transactions at Centerbridge, including: Williams & Glyn, Vela Energy, Banca Farmafactoring, Canopius Group, BMI Healthcare (Hospital TopCo) and GoHealth. She currently serves on the boards of directors of the parent companies of the Canopius Group (since August 2017), GoHealth LLC (since July 2019) and BMI Healthcare Ltd (from December 2016 to January 2020).</p>

4.2.1 Criteria and diversity policies

The composition of the Board of Directors in office meets the diversity criteria, also on gender, in accordance with the law and as recommended by the Code of Conduct, there being, within the Board, 4 (four) members belonging to the least represented gender.

The By-Laws, the Regulation of the Board of Directors and the Diversity policy of the BoD contain forecasts aimed at ensuring the application of those criteria in the composition of the Board of Directors.

In particular, the ByLaws provides that the lists containing a number of candidates equal to or greater than No. 3 (three) shall include candidates belonging to different gender, at least to the minimum extent required by regulations regarding the composition of the Board of Directors.

The Board regulation also aims that the nomination process shall ensure, in compliance with the gender balance, that the Board includes members able to play effectively the role assigned to them.

On 28 September 2018, the Board of Directors approved, on the proposal of the Nomination Committee, the Board of Directors' Diversity Policy, which was last updated on 28 November 2019, in order to implement the amendment to art. 15 of the By-Laws, approved by the Shareholders' Meeting on 28 March 2019, which introduced the power for the outgoing Board of Directors - on the occasion of the full renewal of the Board of Directors - to submit a list of candidates for the appointment of the Board itself (the "**Board List**").

This policy is subject to a process of periodical reviewing and, where required, it is updated at least once a year, possibly with the help of external professionals, on the proposal of the Nomination Committee. The revisions made under the Policy are in accordance with the outcomes of the Self-assessment process – carried out annually in accordance with the provisions on Corporate Governance – and are aimed at capturing and anticipating changes in the Company, so that the identification of Board composition requirements shall be consistent with these results.

The Diversity Policy of the BoD defines the ideal characteristics of the composition of the governing body, so that it can exercise its tasks in the most effective way, taking decisions on the basis of a different, qualified and heterogeneous, points of view. Particularly, we consider that the optimal composition of the Board of Directors should be oriented towards at least the following criteria:

- (i) there shall be an appropriate number of non-executive and/or independent Directors. In any event, the number of independent directors shall be at least one quarter of the members of the entire body, as well as ensure an heterogeneous composition of the internal Committees;
- (ii) maintaining at least a share of one third of the members of the Board of Directors, at the time of nomination and during the term in office, belonging to the less represented gender¹⁶;
- (iii) age shall be heterogeneous, to allow a multiple perspective and managerial and professional experiences;
- (iv) the different seniorities shall be balanced, to pursue a balance between continuity and renewal management requirements;
- (v) in view of the Group's international projection, at least one third of Directors shall have gained sufficient international experience (preferably within the markets in which the Group operates) in order, *inter alia*, to prevent views homologation and the phenomenon of the "*group thinking*".

Generally, Directors should be characterized by a managerial, professional, academic and/or institutional profile in order to achieve a *mix* of skills and experiences, acquired for at least three years, different and complementary to each other.

With specific reference to the Chairman of the Board of Directors and the Chief Executive Officer, the Diversity Policy of the BoD indicates the requirements of professionalism that they shall have respectively acquired for at least five years.

As anticipated, moreover, in addition to the requirements of professionalism as stipulated, Directors shall hold the additional requirements laid down by the Regulation of the Board of Directors, which is available on the Bank's *website*, to which reference should be made for further details: <https://www.bffgroup.com/en/board-of-directors-regulation>.

The Diversity Policy of the BoD takes place – complying with the rules of law and the ByLaws on the nomination of the Board of Directors and its Chairman, via the list voting mechanism and the Succession Plan of the Chief Executive Officer– primarily within (i) the renewal of the Board of Directors, not only through the formulation by the outgoing Board of Directors of the

¹⁶ The Diversity Policy of the Board of Directors will be amended during 2020 to adapt it to the new regulations on gender quotas.

Guidance for Shareholders, but also in the possible composition and presentation of the Board List to Shareholders; (ii) co-option; (iii) early termination of the Chief Executive Officer and (iv) election of the Chairman of the Board of Directors. For the nomination of the Board of Directors and the co-opting as defined, respectively, in points (i) and (ii), the Self-assessment process is considered essential.

In view of the approval of the Diversity Policy of the BoD, occurred in the third quarter of 2018, following the renewal of the Board of Directors by the Shareholders' Meeting of 5 April 2018, monitoring of outcomes resulting from its implementation will be carried out at the time of the next Board renewal.

4.2.2 *Maximum number of offices held in other companies*

Guidelines about the maximum number of governance positions that can be held by the Company's Directors - in line with the provisions of the Code of Conduct and the Supervisory Provisions - is expressed in the Regulations of the Board of Directors, in which - without prejudice to the different provisions in argument that could derive from the implementation of the CRD IV Directive (Directive 2013/36/EU of 26 June 2013) in the national law and, therefore, from the issuing of the Fit & Proper – Decree established that:

- a) the Chief Executive Officer cannot hold: i) any other executive role; ii) more than No. 2 (two) non-executive positions;
- b) the independent Directors and the non-executive Directors can not assume at the same time, alternatively: i) more than No. 4 (four) positions of non-executive director; ii) No. 1 (one) as executive director and No. 2 (two) positions of non-executive director,

whereas:

- a) shall count as one single position:
 - executive and non-executive director positions held in the same group;
 - the positions of executive and non-executive director in the following areas: i) bodies that are members of the same institutional protection system if are met the conditions set forth in Article 113, par. 7, of Regulation (EU) No. 575/2013, and ii) companies (including non-financial entities) in which the institution holds a qualified shareholding;
- b) they do not include those of executive and non-executive directors in organizations that do not primarily pursue commercial objectives.

Therefore, in the calculation of the offices the following positions are not considered: a) in the Bank, in companies controlled by the Bank or in companies belonging to the Group or CRR group; b) in companies belonging to the same group; c) in onlus, foundations, associations, *no profit* organizations, and in committees of an advisory or propositional nature.

“Executive appointments” means the following offices: managing director, member of corporate management bodies with operational powers, general manager; for non-executive or control positions the following offices are considered: member of the board of directors without delegations, member of the supervisory board, member of the board of statutory auditors.

The Chairman and the Chief Executive Officer cannot assume the office of board of statutory auditors.

Candidates as Chief Executive Officer of the Company shall provide the Board with the updated status of the positions of administration, management and control held by each person. Following the appointment, the Directors shall keep the Board promptly updated on their duties, in order to allow the Board itself to check whether the limits indicated above have been exceeded.

If the limit is exceeded, the Board assesses the situation in light of the current legislation.

For the designation in the investee companies of the Bank, the Board shall first assess compliance with the limit of offices and, in the event that the limit is exceeded after the appointment, take the resulting determinations.

If a member of the Board is a candidate for an executive position in a banking, insurance or financial company, before accepting it, he shall be authorized in advance by the Shareholders' Meeting pursuant to Article 2390 of the Italian Civil Code, without prejudice to the applicable regulations in force in the matter of prohibition of *interlocking directorships* (Article 36, paragraphs 2-*bis* and 2-*ter*, of the Decree Law of 6 December 2011, No. 201, so-called “Salva Italia Decree”, converted into a law, after amendment, by Law of 22 December 2011, No. 214). The table below shows the total number of offices as director or statutory auditor held by the Directors in office at other companies at the date of approval of the Report.

Director	Overall number of appointments in other companies
Salvatore Messina	1 NON-EXECUTIVE
Federico Fornari Luswergh	1 EXECUTIVE
Massimiliano Belingheri	0
Isabel Aguilera	5 NON-EXECUTIVE
Gabriele Michaela Aumann	0
Ben Carlton Langworthy	3 NON-EXECUTIVE
Carlo Paris	2 NON-EXECUTIVE
Barbara Poggiali	4 NON-EXECUTIVE
Giorgia Rodigari	2 NON-EXECUTIVE

The Nomination Committee and the Board of Directors considered the limits of the accumulation of offices by Directors in other companies respected in light of the weightings applicable to the positions held in the same group, and of the statements made by them.

In this regard, it should be noted that the Nomination Committee and the Board of Directors deemed the number of positions held by Ms. Aguilera (no. 5 non-executive) to be adequate, although higher than the limit established in article 9 of the Board of Directors' Regulations, having considered that (i) the companies in which she holds non-executive directorships operate in sectors related to Ms. Aguilera's professional background and, therefore, do not imply any particular expenditure of energy in understanding their business (ii) Making Science S.A. and HighTech Payment Systems S.A. - Morocco are planning a reduced number of board meetings per year (respectively, n. 4 and n. 2); (iii) Oryzon Genomics S.A. qualifies as an "SME" within the meaning of EU Recommendation no. 2003/361; (iv) the participation in the board meetings of the companies of which Dr. Aguilera is a member other than the Bank does not require time-consuming travel, therefore, believing that taking up the new position does not compromise the time and dedication required to continue to diligently perform the role of Director of BFF.

4.2.3 Induction Programme

requires the Bank to adopt appropriate training plans to ensure that the technical skills of the members of the Board of Directors and the Board of Statutory Auditors, as well as the heads of the main corporate functions, necessary to carry out their role in an informed manner, are preserved over time; in case of new appointments, specific training programs are set up to facilitate the inclusion of new members in the Corporate Bodies.

In line with the initiatives launched in 2018, aimed in particular at providing newly appointed Directors with in-depth knowledge of the Bank's and the Group's business sector, company business dynamics and their evolution, the principles of proper risk management, as well as the regulatory and self-regulatory framework of reference, during 2019 - on the initiative of the Chairman of the Board of Directors, training sessions were promoted on issues relating to corporate social responsibility, digital transformation and cybersecurity, organised by external professionals, which were attended by Directors and Statutory Auditors.

Extra Board meetings were organized aimed at probing strategic and business issues.

4.3 ROLE OF THE BOARD OF DIRECTORS (ARTICLE 123-BIS, PARAGRAPH 2, LETTER D), TUF)

4.3.1 Meetings and operation

During the year, the Board of Directors met No. 19 times, and each session had an average duration of about 2 hours and 23 minutes.

On 20 December 2019, the Board of Directors approved, inter alia, the financial calendar for the Year, available on the *website* in the section “*Investor Relations/Next Events*”.

As for the percentage of participation of each Director in Board meetings, please refer to Table 2 – “*Composition of the board of directors and Committees*” attached to the Report.

With reference to the 2020 financial year, no. 16 meetings are scheduled; at the date of this Report, the Board of Directors met no. 3 times, and in particular, 29 January 2020, 10 February 2020 and 25 February 2020.

The By-Laws and the Regulations of the Board of Directors set out adequate procedures for the functioning of the administrative body, as well as adequate information flows, working methods and call/meeting times, which guarantee the correct and efficient functioning of the Board of Directors; as well as the timeliness of its action.

In accordance with article 17 of the By-Laws, the Board of Directors meets upon convocation by the Chairman, and convened by the Board of Statutory Auditors, at the registered office, without prejudice to reasons of expediency the meetings shall be held elsewhere.

Article 19 of the By-Laws also provides the possibility that Board meetings may also take place through interventions in several adjoining or distant places, audio and/or video linked, provided that the collegial method and the principles of good faith and equal treatment of participants. In particular, it is necessary that all the participants can be identified, be they allowed to follow

the discussion and intervene in real time in the discussion and simultaneous voting on the topics on the agenda. In this case, the Board is considered to be held in the place where the Chairman is located, which shall be the same in which the Secretary is located, in order to allow the drafting and signing of the relative minutes.

With regard to the pre-meeting information, the Chairman and the Company's Corporate Affairs Secretarial Unit are responsible for sending to the Directors and to the Statutory Auditors the documentation on the items on the agenda of each meeting with appropriate notice, also on the basis of content of the topics dealt with, according to the provisions of Article 12 of the Regulations of the Board of Directors, which expressly states: “*the Chairman shall adopt the agenda, coordinate the works of the Board and ensure that all the Directors receive adequate and timely information on the items on the agenda*”.

To allow an optimal and informed participation in the activities of the Board, the deadline considered appropriate for the transmission of the documentation before each meeting was set at No. 3 (three) days, and was generally complied with, but the practice of making pre-board documentation available as and when it is available, even before the formal convening of board meetings, has also been introduced about two years ago.

It should also be noted that this practice has become established that the documentation made available to Directors and Statutory Auditors is accompanied by specific summary notes and/or *executive summary*, in order to make it easier to understand the items on the agenda.

Board meetings are held in compliance with the indications provided by article 1 of the Code of Conduct, which has been substantially implemented in the Regulations of the Board of Directors. In particular, the Chairman of the Board of Directors ensures that the time allocated to allow for a constructive debate is dedicated to the topics on the agenda, encouraging the contributions of the Directors during the meetings.

All Board meetings are minuted by the Secretary, who may also be appointed outside its members.

It should be noted that the Board of Directors appointed Mrs. Romina Guglielmetti, external party to the Board, which, in coordination with the Chairman and the Corporate Affairs Secretariat B.U. (which reports to the *General Counsel* Function), takes care of the activities necessary for the functioning of the Board's activity.

The minutes are signed jointly by the Chairman of the Board of Directors and the Secretary (or by the Notary, in the cases provided by current regulations). These minutes are brought to the attention of the Directors and the Board of Statutory Auditors at the first meeting of the subsequent Board and remain available for consultation on a special electronic platform, to which Directors and Statutory Auditors have access.

The members of the Board of Statutory Auditors take part in the Board meetings and may be invited to participate, in the cases and in the manner established by the Chairman from time to time, the Bank's executives and employees, representatives of the Auditing Firm and consultants, whose presence is deemed useful in relation to the topics to be discussed (limited to the phase of dealing with the matters for which they are responsible) or for carrying out the work.

With regard to the members of the Board of Statutory Auditors, it should be noted that: Mrs. Paola Carrara (Chairman) participated in No. 19 meetings, Mr. Marco Lori to No. 19 meetings, Mrs. Patrizia Paleologo Oriundi to No. 18 meetings.

On the meetings of the Board of Directors, those were invited to attend:

- No. 19 meetings, the General Counsel, Group Legal and Corporate Affairs Director ;
- No. 10 meetings, the Director of Planning, Administration and Control;
- No. 9 meeting, the Director of Investor Relations, Strategy and Group M&A;
- No. 9 meeting, the Director, Chief of Staff;
- No. 9 meetings, the Director of Group Compliance and AML;
- No. 9 meetings, the Director of Group *Risk Management*;
- No. 7 meetings, the *Vice President of Factoring*;
- No. 6 meetings, the Director of Group *Internal Audit*;
- No. 5 meetings, the CFO, *Vice President* of Administration and Finance¹⁷;
- No. 5 meetings, the *Vice President* of Operations;
- No. 4 meetings, the *Vice President*, International Markets and Development;
- No. 3 meetings, the Chief Reporting Officer;
- No. 3 meetings, the Director of Group's Human Resources and Organizational Development;

¹⁷ Position held from 3 June 2019.

- No. 2 meetings, the Chairman of the SB;
- No. 2 meetings, a representative of the Audit Firm;
- No. 1 the Head of the *Information and Communication Technologies* B.U.;
- No. 1 meeting, the Head of Finance and Treasury;
- No. 1 meeting, the Head of the *Information and Communication Technologies* B.U.;
- No. 1 meeting, the Head of the Regulations and Processes B.U.;
- No. 1 meeting, the Head of the Credit Rating B.U.;
- No. 1 meeting, the Head of the Planning and Control B.U.;
- No. 1 meeting, the *Vice President* of Credit and Finance¹⁸
- No. 1 meeting, representatives of Avvera S.r.l. (DPO),

to provide appropriate insights on the topics on the agenda.

The Head of the Corporate Affairs Secretariat B.U., also took part in the meetings of the Board of Directors. It should be noted that the *General Counsel* Function (to which the Corporate Affairs Secretariat reports) is the body responsible for the specialist supervision and control of the main corporate governance processes, ensuring all appropriate legal advice for the proper functioning of the Bank's and the Group's corporate governance institutions, including those relating to the eligibility requirements of corporate officers, to relations with parties related to the correctness of the decision-making process, as well as to the related interactions with the Supervisory Authorities.

4.3.2 Duties

Pursuant to the Italian Civil Code, Article 18 of the By-Laws and Article 4 of the ROA, the Board of Directors has all the powers of ordinary and extraordinary administration, excluding only those that the law or the By-Laws strictly reserve for the Shareholders' Meeting.

In addition to the powers that cannot be delegated by law, and without prejudice to the provisions of the regulatory and supervisory provisions *in force* and the last paragraph of Article 16 of the By-Laws, the Board of Directors shall:

- a) approve/revise the industrial and financial plans and/or the *budget*, and verify the achievement of the related objectives;

¹⁸ Position held until 1 April 2019.

- b) decide about the assumption and sale of Group holdings, as well as define the criteria for the coordination and management of the Group companies, and for implementing rules issued by the Bank of Italy.
- c) In accordance with the ROA, the Board of Directors also defines the overall governance structure and approves the Bank's organizational structure, verifies its correct implementation, and promptly promotes corrective measures against any gaps or inadequacies.

Particularly:

- a) approve the Bank's organizational and corporate governance structure, ensuring the clear distinction of tasks and functions, as well as the prevention of conflicts of interest;
- b) approve accounting and reporting systems (reporting);
- c) supervise the process of informing the public and communication of the Bank;
- d) ensure an effective dialectical confrontation with the Chief Executive Officer and with the heads of the main Company Departments, and verify over time choices and decisions made by them;
- e) process, submit to the Shareholders' Meeting and review, at least annually, the remuneration and incentive policies, and shall be responsible for its correct implementation, ensuring that it is adequately documented and accessible within the corporate structure;
- f) define the remuneration and incentive systems, for example remuneration for the Chief Executive Officer, the General Manager, where appointed, and for the Directors who hold particular positions, as well as for the "most important personnel", as defined in the Remuneration and Incentives Policy for the members of the Strategic Supervisory Bodies, Management and Control, and of the Banca Farmafactoring Banking Group Personnel, published on the website. Specifically, the Board of Directors shall ensure that these systems are consistent with the Bank's overall choices in terms of risk assumption, strategies, long-term objectives, corporate governance structure and internal controls;
- g) define the content of the proxies in favor of the Chief Executive Officer in an analytical, clear and precise manner, also in the indication of the quantitative and value limits, and of the possible methods of exercise, also in order to allow the collegiate body to precisely

verify their correct fulfillment, as well as the exercise of their own directive and call-back powers.

On 25 February 2020, the tasks of the Board of Directors were supplemented to take into account the recommendations made in the seventh "Annual Report on the application of the Code of Conduct on the evolution of corporate governance of listed companies", as detailed in section 19.

Pursuant to the Infragroup Regulation, the Board of Directors, as the body with strategic supervisory functions of the Bank, the parent company of the BFF Group, shall also exercise the following responsibilities at Group level:

- a) approve/revise the industrial and financial plans and/or the *budget* and of the Group, and verify the achievement of the related objectives;
- b) define and approve the corporate governance system and the Group structure;
- c) assess the adequacy of the organizational, administrative and accounting structure of the Subsidiaries, with particular reference to the Internal Control System and the management of conflicts of interest. In this regard, inter alia, periodically check that the Internal Control System is consistent with the strategic guidelines, and that the Corporate Control Functions are independent within the organizational structure, as well as having professional resources and appropriate *budget*.
- d) define and approve the Group's *business* model, being aware of the risks inherent to it, and understanding the ways in which these risks are detected, measured and assessed;
- e) define and approve the strategic guidelines of the Group and their review, having regard to the evolution of Group activities and market conditions, in order to ensure their effectiveness over time;
- f) define and approve the organizational structure of the Group and Group regulations, ensuring that, within them, the tasks and responsibilities are allocated in a clear and appropriate manner, including with regard to delegation mechanisms;
- g) define and approve the risk management process, and assessment of its compatibility with the strategic guidelines and risk governance policies adopted by the Bank at Group level;
- h) define and approve the framework for determining the RAF, to establish ex ante the risk/return objectives that the Group intends to achieve and the resulting operational limits, as well as verifying that the implementation of the RAF is consistent with the risk

objectives and the tolerance threshold identified therein, and the periodic assessment of the adequacy and effectiveness of the RAF, and the compatibility between the actual risk and the risk objectives;

- i) decide about the assumption and sale (direct or indirect) of investments in other companies, that involve a change in the composition of the Group, as well as determining the criteria for the coordination and management of the Subsidiaries and for implementing rules issued by the Bank of Italy.

At the meeting of 19 February 2019 and 8 August 2019, on the approval, respectively, of the annual consolidated financial statements as of 31 December 2018, and of the BFF Group's half-yearly consolidated financial statements as at 30 June 2019, the Board of Directors assessed the adequacy of the Issuer's organizational, administrative and accounting structure, with particular reference to the internal control and risk management system, based on the investigation carried out by the Risk and Control Committee - in coordination with the Board of Statutory Auditors - and of the report presented by the Chief Reporting Officer, on the adequacy and application of the administrative and accounting procedures.

The Board of Directors, in the meetings of 19 February 2019 and 8 August 2019, on the approval, respectively, of the annual consolidated financial statements as of 31 December 2018 and of the Group's half-yearly consolidated financial statements as at 30 June 2019, assessed, inter alia, the adequacy of the organizational structure of the subsidiaries with strategic importance. Specifically, these assessments were adopted after the opinion of the Risk and Control Committee which, in the context of its meetings - in coordination with the Board of Statutory Auditors - (which you can see *below*), has consistently verified the adequacy and effective functioning of the Group's internal risk and control management system, with particular reference to the Subsidiaries with strategic importance.

At the meeting of 24 June 2019, the Board of Directors, in line with the provisions of the relevant legislation¹⁹, conducted a qualitative and quantitative analysis in order to identify the Group Companies to be classified as "relevant", namely, entities that contribute more to risk profile, to profitability and, in a broad sense, are more important for the survival of the Group

¹⁹ See Delegated Regulation (EU) 2016/1075 of the Commission of 23 March 2016 - Article 7.

itself²⁰. Specifically, it was assessed whether each Subsidiary: i) contributes significantly to the consolidated profit, *funding*, assets or equity of the Group; ii) incorporates key activities or essential functions; iii) performs centralized operational, risk or administrative functions; iv) assumes considerable risks that could, in the most unfavorable scenario, threaten the survival of the Group; v) cannot be sold or liquidated without compromising the Group's business continuity. From the analysis carried out, the following companies have been classified as Subsidiaries with strategic importance: BFF FI and BFF Polska.

In general, the Board oversees and guarantees the adequacy of the administrative and general organizational structure of the Subsidiaries with strategic importance - also implemented through the issue of specific internal regulations, such as *policies*, guidelines and internal regulations - by examining the structure of the Group and the structures of the individual companies. In particular, it periodically verifies that the Group's internal control structure is consistent with the proportionality principle and strategic guidelines, and that the corporate control functions of the Bank and the Group are autonomous within the organizational structure, as well as level of resources. With reference to this assessment, reference should be made to what represented in this regard in the following Section 11 – “*Internal control system*”.

During the financial year, the Board assessed the general management trend at least quarterly, taking into account, in particular, the information received from the Chief Executive Officer, as well as periodically comparing the results achieved with those planned.

On the basis of the own powers of the Bank as Parent Company, the Board of Directors examines and approves in advance the transactions of the Bank and its Subsidiaries with a significant strategic, economic, equity and financial importance for the Group itself.

Pursuant to Article 18 of the By-Laws, the Board of Directors is responsible for decisions concerning the assumption and sale of shareholdings of the BFF Group.

According to the ROA, in fact, the Board is exclusively competent to: i) examine and approve the strategic guidelines, their periodic review, in relation to the evolution of the business activity and the external context, in order to to ensure its effectiveness over time; ii) the criteria for identifying the most significant transactions to be submitted to the prior screening of the *Risk Management Function*.

²⁰ Analysis within the Recovery Plan approved by the Board of Directors.

In the different areas of operation of the Group, there is a transaction "of greater importance" (the "OMR") according to the importance of the risk aspects attributable to it, pertaining to the transaction itself and/or to the complex of similar transactions already existing.

Defining OMRs is fundamental in the process of assumption and management of risks, as it allows to identify the operations (or the complex of the same) that, although falling within the delegation powers of the single organizational unit/department and/or *legal entity* of the Group, show potential significant impacts on the group of risks to which the Group is exposed; for a preventive assessment of these impacts, the OMRs are analyzed by the *Risk Management Function*.

The identification of OMRs takes place on the basis of qualitative and quantitative criteria, distinct and specific for each area of operation. These criteria are defined by the Parent Company's Board of Directors in a "risk based" perspective, also on the basis of the surveys carried out by the *Risk Management Function*, and in line with the risk propensity levels established in the RAF.

The transactions approved directly by the Board of Directors and/or the Chief Executive Officer are not included in the definition of OMR. However, for these transactions the Board of Directors and/or the Chief Executive Officer have the right to request an advisory opinion to the *Risk Management Function*.

The prior opinion of the *Risk Management Function* on the OMRs represents, therefore, an *escalation* measure aimed at involving the Board of Directors and/or the Chief Executive Officer on transactions that fall within the powers delegated to the *business* functions, and which, for the particular profiles of risk, are considered worthy of attention; the assessments on the risk aspects that characterize a OMR concern both individual transactions and those accumulated over time.

4.3.3 Self-assessment by the Board of Directors

In compliance with the provisions of Circular No. 285, the Board of Directors defined in the "Regulation on the self-assessment process of the Board of Directors" – approved on 11 December 2015 - the process of self-assessment on the size, composition and functioning of the Board itself (the "Self-assessment").

Self-assessment concerns aspects relating to the composition and functioning of the Board and its internal Committees, also taking into account, also, the qualitative and quantitative

composition, the size, the degree of diversity and the professional preparation of the members, the presence of non-executive and independent members, the adequacy of nomination processes and selection criteria, in order to verify and guarantee over time the most correct functionality and the consequent effectiveness of the body strategic supervisory powers and the internal board committees, and guarantee the effectiveness of a *governance* that is dutifully inspired by the principles of sound and prudent management.

In the year 2019, the Self-assessment was conducted between September and November, and, as in the previous year, it was carried out internally by the Bank with the operational support of the Corporate Affairs Secretariat B.U. and Starclex - the law firm *Studio legale associato Guglielmetti* (the "**Consultant**").

The Bank has already used and takes advantage of the services rendered by the Consultant, *inter alia*, assisting the Corporate Affairs Secretariat B.U., and the Board of Directors, and in the preparation of Diversity Policy of the BoD, based also on the results of the Self-assessment process carried out in the year 2018²¹.

The consultant has supported the Bank, in particular:

- (i) preparing questionnaires concerning key points on the composition and functioning of the Board of Directors and its Board Committees, in which the opportunity to report any themes deserving of insights was also provided to Directors;
- (ii) preparing a report, highlighting, *inter alia*, the strengths and weaknesses identified, and any appropriate corrective measures, as well as a comparison of the findings of 2018 Self-assessment and the guidelines set out therein.

The *board evaluation* process was divided into several phases including, also, the completion, by the Directors, of such questionnaire, the processing of data and information collected, the participation of the Consultant at the Board and Committees meetings, the examination of the corporate documentation, the preparation of the report containing the results of the self-assessment process, and identifying the strengths and weaknesses found.

The Nomination Committee has expressed to the Board of Directors its determinations on the self-assessment process of the Board itself, in order to assist it in the activities for which it is responsible.

²¹ *Board evaluation* for the period from 1 October 2017 to 30 September 2018.

The outcome of the Self-assessment was overall positive. Directors, in fact, expressed satisfaction with the operation and for the work done by both the Board of Directors collectively, and its components individually.

We remind you that the Board of Directors, taking due account of the results of the *board evaluation* for the year 2017, expressed to Shareholders, before the meeting convened *inter alia* for appointing the Board of Directors (held on 5 April 2018), the Guidance for Shareholders, publishing the Guidelines, which can be consulted on the website at: https://www.bffgroup.com/documents/20152/1041339/shareholders_meeting-348.pdf/063cee5b-dc46-46d4-e8c4-fa853e27c8d7.

The Shareholders' Meeting has not authorized, as a general or preventive measure, any exemptions from the prohibition on competition laid down in Article 2390 of the Italian Civil Code.

4.4 DELEGATED BODIES

4.4.1 Chief Executive Officers

In the model adopted by BFF, the Board of Directors has identified the body with management function in the CEO, chosen among its members, determining their powers and terms in office. The Bank has not appointed general managers.

The Board conferred to the Chief Executive Officer all sector powers of the Bank's business, within pre-established limits and with the power to *sub-delegate*. Specifically, the Chief Executive Officer manages the activities of the Company, within the limits of the powers granted to him and in compliance with the general management guidelines established by the Board of Directors, and oversees the implementation of the resolutions of the Board of Directors and of the obligations required by law. He is head of the personnel and the structure, and takes care that the organizational, administrative and accounting structure of the Company is adequate to the nature and size of the company itself.

Detailed information on these powers is shown in Table 4 – “*Operational Powers*” attached to this Report.

The Chief Executive Officer is Mr. Massimiliano Belingheri, who, as ascertained by the Nomination Committee and the Board of Directors, at the meeting of last 10 May, does not hold other positions outside the Group.

4.4.2 Chairman of the Board of Directors

The Chairman of the Board of Directors plays a crucial role in ensuring the proper functioning of the Board of Directors, fostering internal dialogue and ensuring the balancing of powers, consistently with the tasks relating to the organization of the Board's work and the circulation of information, that are attributed to him by the Italian Civil Code and the Corporate Governance Regulations. Corporate Bodies, placing himself as interlocutor for them and the internal Committees, in which he participates by right. The Chairman of the Board of Directors, if not provided by the Shareholders' Meeting, is appointed by the Board among its non-executive and independent members.

The Chairman ensures the effectiveness of the Board debate, and favors in a neutral manner the meditated participation of the Directors, in particular, those non-executives, asking them to actively participate in the discussion and adopting resolutions on the items on the agenda.

The President works to ensure that the resolutions adopted by the Board are the result of an adequate dialectic, and of the conscious and reasoned contribution of all its members.

More specifically, pursuant to Article 13 of the Regulations of the Board of Directors, the Chairman shall:

- a) have the legal representation of the Bank before third parties and in court, as well as the signing power, separately from the Chief Executive Officer and the General Manager, if appointed, within the limits of their respective powers;
- b) chair the Shareholders' Meeting and coordinate the Shareholders' Meeting meetings, also verifying that the Meeting has been duly constituted, confirming the identity and legitimate title of members present, regulating the discussion and establishing the voting procedures;
- c) convene the Board, set the agenda and coordinate the work. In the preparation of the agenda and in conducting the Board debate, he shall ensure that matters of strategic importance are treated with priority, ensuring that all the necessary time is devoted to them;
- d) ensure that the documentation supporting the Board resolutions or, at least, an initial disclosure on the matters to be discussed is forwarded to the Directors well in advance. For the purposes of correct disclosure, the documentation relating to the items on the agenda is sent to the Directors and Auditors, normally, at least three days before the date

- set for the Board meeting (unless they preclude reasons of confidentiality, having particular regard to “*price sensitive*” information);
- e) ensure that the documentation supporting the resolutions, in particular that given to non-executive members, is adequate in quantitative and qualitative terms with respect to the items on the agenda; favor a meditated participation of the Directors in the discussion and resolution of the matters being discussed;
 - f) ensure that Directors and Auditors may participate, in the most appropriate ways, in initiatives aimed at providing them with adequate knowledge of the business sector in which the Bank operates, of the company dynamics and their evolution, of the principles of correct risk management, as well as the reference and regulatory framework;
 - g) organize at least once a year a meeting among all the Directors, even outside the board of directors, to deepen and to discuss strategic issues, asking to all Board members to participate;
 - h) he shall ensure that: (i) the self-assessment process provided by the Supervisory Provisions is carried out effectively, the manner in which it is conducted is consistent with the degree of complexity of the Board's work, the corrective measures necessary to deal with any deficiencies found are adopted; (ii) the Bank prepares and implements integration plans and training plans for members of the bodies, and plans for the succession of senior management positions of the Company;
 - i) exercise the powers delegated to him by the Board, provided that they do not compromise their independence and are compatible with the applicable provisions of law and regulations;
 - j) oversee the execution of the Shareholders' Meeting and the Board resolutions, as well as the adherence of company policy to strategic guidelines.

In the absence of the Chairman, its powers are exercised by the Deputy Chairman (who is a non-executive director). Before third parties, the signature of the Deputy Chairman makes full proof of the absence or impediment of the Chairman. In the event of absence or impediment of the Chairman, the Board of Directors is chaired by the Deputy Chairman or, in the event of his absence or impediment, by the Director with the highest number of consecutive mandates.

The Chairman contributes, as a member of the Board of Directors with the relative voting prerogatives, to the elaboration of the business strategies, whose approval is of exclusive competence of the Board itself.

The Chairman, Mr. Salvatore Messina, has no operational powers and does not hold the role of *Chief Executive Officer* nor that of a controlling shareholder of the Company.

4.4.3 Executive Committee (only if established) (Article 123-bis, paragraph 2, letter d), TUF)

Article 16 of the By-Laws provides that the Board may also delegate its powers to an Executive Committee by setting, with the limitations set out in Article 2381 of the Italian Civil Code, the powers, the number of members and the rules that regulate its operation.

To date, the Company has not established any Executive Committee.

4.4.4 Reporting to the Board

During the year, the Chief Executive Officer reported to the Board of Directors on the general performance of the management and on its foreseeable evolution, as well as on the major economic, financial and equity transactions carried out by the Company and its subsidiaries, at least quarterly and, in any case, at the first useful meeting.

4.5 OTHER EXECUTIVE DIRECTORS

Pursuant to the Regulations of the Board of Directors, the Directors are considered to be executive directors who:

- i)* are recipients of delegations or perform functions, even of mere fact, relating to the management of the company;
- ii)* hold managerial positions in the Bank, or are responsible for supervising specific areas of company management, ensuring the constant presence in the company, acquiring information from the relevant operating structures, participating in managerial committees and referring to the collegial body on the activity carried out;
- iii)* hold the positions under *sub i)* and *sub ii)* in any company of the BFF Group.

The assignment of vicarious powers or only for cases of urgency to directors who do not have management powers does not constitute them as executive directors, unless such powers are in fact exercised with considerable frequency.

There are no other Executive Directors on the Board of Directors of the Bank, in addition to Mr. Massimiliano Belingheri, Chief Executive Officer.

4.6 INDEPENDENT DIRECTORS

As indicated in Section 4.2 of the Report, the Board of Directors of BFF includes No. 2 (two) Independent Director pursuant to Article 148, paragraph 3 of the CFA and No. 4 (four) Independent Directors pursuant to Article 148, paragraph 3 of the CFA and Article 3 of the Code of Conduct.

Pursuant to the Regulations of the Board of Directors, the Board assesses, on the basis of the information and declarations provided by the interested parties or the information in any case at its disposal, the existence of the requisites of independence:

- at the moment of the appointment, for the director who qualifies as independent;
- on an annual basis, after the year of appointment, for all the directors appointed as independent.

The Board of Directors, after their appointment on 5 April 2018, verified the existence of the independence requirements established by the TUF and by the Code for each of the Directors qualified as independent announcing the outcome of said assessments by means of a press release released to the market on 26 April 2018.

The Board of Directors, on 10 May 2019, as part of its annual review of the persistence of the above requirements, ascertained:

- (i) the compliance with independence requirements of the Directors, Gabriela Michaela Aumann, Barbara Poggiali, Isabel Aguilera and Carlo Paris, under Art. 148, par. 3, of the TUF and Art. 3 of the Code of Conduct, as well as,
- (ii) the compliance with only independence requirements of the Chairman of the Board of Directors, Salvatore Messina, and Director Federico Fornari Luswergh under Art. 148, par. 3, of the TUF.

With regard to Mr. Fornari, it should be noted that his failure to meet the independence requirement pursuant to the Code of Conduct is the exclusive consequence of his presence on the Bank's Board of Directors for more than nine years (he was first appointed in April 2010).

The Board of Directors has considered that Mr. Fornari's term of office beyond nine years does not affect his independence, since he has not had relations with the Company, or parties linked to it, such as to condition his independent judgement and, in any case, all the other criteria indicated in the Code of Conduct are met. The Board also assessed the overall adequacy of the

composition of the Committees considering that the fact that the nine-year period has been exceeded has not led to the requirement of independence pursuant to the Corporate Governance Code for the purposes of participation in Committees.

In compliance with the provisions of the Board of Directors' Regulations, for the assessment of the existence of the independence requirement, the credit relationships maintained with the Bank and attributable to independent Directors have been taken into consideration, as well as any professional, commercial or financial relationships, direct or indirect, independent Directors with Group companies, also taking into account the following criteria of significance: duration of the commercial relationship passed, value of the service compared to the turnover of the company or professional firm to which the Director belongs, or with respect to the income of the Director same as a natural person.

Pursuant to the Code of Conduct, the Board of Statutory Auditors verified the correct application of the criteria and procedures for ascertaining the independence requirements of the members of the Board of Directors, at its meeting on 19 June 2019, upon the outcome of which it considered the procedures adopted by the Board of Directors, suitable for ascertaining the independence requirements of its members.

In the absence of the other Directors, the Independent Directors met twice during 2019. The meeting discussed on strategic and governance issues.

As required by the Regulations of the Board of Directors, the candidacy of the independent Directors is accompanied by a declaration by the candidate stating the requisites of independence pursuant to the law, the By-Laws and the Regulations itself.

The Directors have undertaken to promptly inform the Board of Directors of any subsequent taking of any position that may affect the Board of Directors' assessments with regard to the independence requirements.

4.7 LEAD INDEPENDENT DIRECTOR

Considering that, in compliance with the regulatory provisions set by the Bank of Italy for banking companies, the Chairman of the BFF Board of Directors i) has not received any management delegation from the Board, ii) does not hold the position of principal responsible for the management of the company (so-called *Chief Executive Officer*), and iii) is not the

controlling shareholder of BFF, the Board has not designated an independent director as *lead independent director*, not using the conditions set out in Application Criterion 2.C.3 of the Code.

5. HANDLING CORPORATE INFORMATION

In compliance with Regulation (EU) No. 596/2014 on market abuses (“**MAR**”) and related implementing regulations, the treatment of privileged information is governed by the “*Procedure for the internal management and disclosure of privileged and relevant information*” (the “**PI Procedure**”), as well as the “*Procedure for keeping and updating the register of persons who have access to privileged information*” (the “**Register Procedure**”), adopted on 28 July 2016 by the BFF Board of Directors, upon proposal of the Chief Executive Officer and subsequently updated on 23 January 2020 by the Chief Executive Office. The IP Procedure regulates the evaluation, management and disclosure of the Bank's privileged information to the market. The Register Procedure regulates the behavioral rules, roles and responsibilities of the subjects and organizational structures involved in the holding and updating of the register of persons who, due to their work or professional activity or because of the functions performed, have access to privileged and relevant information of the Bank and/or the Subsidiaries. The aforementioned procedures were last updated by the Board, on 28 March 2018, also to take into account the Guidelines No. 1/2017 on the “*Management of Privileged Information*” published by Consob on 13 October 2017. On the same date, the Board also approved, the “*Implementing measures of the internal procedure for the management and disclosure of privileged information and of the procedure for keeping and updating the register of persons who have access to privileged and relevant information*” (the “**Implementing measures**”), running the above mentioned procedures, of which they form an integral part.

The IP Procedure of the Bank is available on the following *website*: <https://www.bffgroup.com/documents/20152/0/BFF+Procedura+Informazioni+Privilegiate+ENG.pdf/f02283d5-9c39-c235-70c9-ef6066cd0a78>. The Register Procedure of the Bank is available on the following *website*: <https://www.bffgroup.com/en/procedure-insider-register>.

The Board of Directors also approved, as from 23 February 2004, the “*Code of Ethics of the Group*” (revised and updated, lastly, on 31 May 2018, the “**Code of Ethics**”) addressed to all those that, in the Bank and in any other Group company, in all the countries in which the Group operates, they hold functions of representation, administration or management, or that exercise the management and control of the legal entity to which they belong, to all employees, without exception, and to collaborators. The Code of Ethics requires, in compliance with the MAR, the obligation not to use or disclose to others, without justified reason, confidential and/or *price*

sensitive information. Furthermore, the Code of Ethics provides the obligation not to use confidential information for purposes not directly connected with the exercise of professional activity carried out within the Group. This information shall be managed in ways that ensure compliance with current legislation on *privacy*: in particular, confidential information cannot be disclosed to third parties inside or outside the Group, unless such communication is necessary for the performance of their duties or is requested by the Authorities in the context of official investigations.

6. BOARD INTERNAL COMMITTEES (ARTICLE 123-BIS, PARAGRAPH 2, LETTER D), TUF)

In compliance with the Corporate Governance Provisions, and in line with the provisions of the Code, there were set up within the Board of Directors No. 3 (three) Committees, with instructive, consultative and propositional duties, and composed only, or for the most part, by independent Directors, in order to support the Board of Directors in taking decisions, above all with reference to the more complex sectors of activity.

They are made up as follows:

- the Nomination Committee; (“**Nomination Committee**”);
- the Remuneration Committee; (“**Remuneration Committee**”); and
- the Risk and Control Committee (“**RC Committee**”).

None of the functions that the Code assigns to the Board Committees has been reserved to the Board of Directors. Moreover, none of these Committees performs the functions of two or more committees provided by the Code. The functions were distributed among the Committees in a manner consistent with the provisions of the Code, and in compliance with the Supervisory Provisions.

For the description of the characteristics of the aforementioned Committees, please refer to Sections 7 for the "Nomination Committee" , 8 for the "Remuneration Committee", and 10 for the "Risk and Control Committee" of this Report.

In addition to the Nomination Committee, the Remuneration Committee and the Risk and Control Committee, the Board of Directors established the Committee for the Evaluation of Transactions with Related Parties and Associated Persons (the “**RPT Committee**”), to ensure an efficient system information and consultation that allows the same Board to better assess the transactions with related parties and related parties, in compliance with the provisions of the Consob Related Parties Regulation and Circular No. 263.

Composition and functioning of the RPT Committee

Pursuant to the “*Regulations of the Committee for the Evaluation of Transactions with Related Parties and Associated Persons*”, the RPT Committee is made up of No. 3 (three) members appointed by the Board of Directors, all independent pursuant to Article 148, paragraph 3, of the TUF and Article 3 of the Code.

The RPT Committee is composed by Mrs. Carlo Paris (Chairman), Mrs. Barbara Poggiali and Mrs. Gabriele Michaela Aumann.

The duration of the RPT Committee is equal to that of the Board of Directors. Therefore, it lapses at the termination of the Board itself. Should one or more of its members fail for any reason, the Board provides their replacement with their independent members pursuant to the regulations in force above.

The Chairman of the Board of Directors, Mr. Salvatore Messina, participates by right in the meetings of the RPT Committee.

The Chairman of the RPT Committee : i) formulates the agenda and convenes the Committee whenever it deems it appropriate or is asked to be jointly requested by the other members of the same Committee, by the Chairman of the Board of Directors or by the Chief Executive Officer, a specific notice sent at least 5 (five) days before (subject to urgency); ii) chairs the meetings, organizing their work, and provides prior information so that members can act in an informed manner; iii) directs, coordinates and moderates the debate; iv) reports to the Board of Directors on behalf of the RPT Committee, and v) represents the Committee itself in relations with the other Corporate Bodies, being able to sign on behalf of the RPT Committee reports and opinions to be submitted to the Board. A special report is drawn up for each meeting, signed by the Chairman and the Secretary, who from time to time has been appointed by the Committee itself even outside its members.

During 2019, the RPT Committee met No. 5 times, and the average duration of the meetings was about 32 minutes.

During 2020, approximately No. 5 meetings, of which No. 2 were held respectively on 28 January 2020 and 24 February 2020.

The RPT Committee has the necessary resources for the performance of its functions.

For further information, please refer to Table 2 – “*Composition of the board of directors and committees*” attached to the Report.

Functions of the RPT Committee

The RPT Committee acts to prevent the risk that the possible closeness of certain subjects to the decision-making centers of the Bank could compromise the objectivity and impartiality of the decisions regarding transactions with respect to the same subjects, with possible distortions

in the process of allocation of resources, exposures of the Bank to inadequately measured or managed risks, potential damage to Shareholders *stakeholders*.

The RPT Committee has the task of expressing a prior opinion on the procedures and transactions with related subjects pursuant to Circular No. 263 (the “**Associated Persons**”), and with related parties pursuant to the Consob Related Parties Regulation (the “**Related Parties**”), and plays a role of evaluation, support and proposal on the organization and conduct of internal controls on the overall activity of Assumption and management of risks towards Associated Persons and Related Parties, as well as for the general verification of the consistency of the activity with the strategic and management guidelines.

At least one member of the Board of Statutory Auditors participated in Mo. 4 meetings of the RPT Committee.

7. NOMINATION COMMITTEE

In order to conform its corporate governance model to the provisions of Circular No. 285 and to best *governance* practices, the Board of Directors set up a Nomination Committee in July 2014. Current members of the Nomination Committee were appointed by the Board of Directors on 5 April 2018.

7.1 COMPOSITION AND FUNCTIONING OF THE NOMINATION COMMITTEE (ARTICLE 123-BIS, PARAGRAPH 2, LETTER D), TUF)

7.1.1 Composition

Pursuant to the “*Regulations of the Nomination Committee*”, the Committee is composed of No. 3 (three) members of the Board of Directors, appointed by the latter, all non-executive and mostly independent pursuant to the By-Laws and Regulations of the Board of Directors (*i.e.* of the TUF and of the Code). The Nomination Committee in office consists of No. 3 (three) Non-executive Directors: Mr. Federico Fornari Luswergh (Chairman), Mrs. Isabel Aguilera and Mr. Ben Carlton Langworthy. The Chairman, Mr. Fornari Luswergh is independent under the TUF²² and Mrs. Aguilera is independent pursuant to Article 148, paragraph 3 of the TUF and Article 3 of the Code. Mr. Ben Carlton Langworthy is a non-executive Director.

The Nomination Committee is assigned to an independent Director.

The duration of the Committee is equal to that of the Board of Directors. Therefore, it lapses at the termination of the Board itself. Should one or more members of the Nomination Committee fail for any reason, the Board of Directors provides replacement with its own members who meet the above requirements.

The Chairman of the Board of Directors, Mr. Salvatore Messina, participates by right in the meetings of the Nomination Committee.

7.1.2 Functioning

The Nomination Committee meets, under invitation of its Chairman or his deputy, in the place determined by the latter, preferably at the Bank's offices, by means of a notice containing the indication of the items on the agenda, transmitted to all its members at least 3 (three) days

²² As explained in greater detail in paragraph 4.6, the fact that Mr. Fornari no longer meets the independence requirement pursuant to the Code of Conduct is the exclusive consequence of the fact that he has been a Director of the Bank for more than nine years (he was first appointed in April 2010). On 10 May 2019, the Board of Directors resolved that the fact that the nine-year period has been exceeded has not led to the requirement of independence pursuant to the Corporate Governance Code for the purposes of participation in Committees.

before the meeting (subject to urgency). The calling is also addressed to the Board of Auditors, whose members are entitled to participate. The Chairman chairs the meetings of the Committee, prepares its work, also including the transmission of illustrative and explanatory documentation of the items on the agenda, directs, coordinates and moderates the discussion. In his absence, the Committee is chaired by its oldest member. The Chairman represents the Committee in the meetings of the Board of Directors, and signs the reports and opinions submitted to them by the Committee itself.

All meetings of the Committee are minuted by the Secretary appointed from time to time also outside the members of the Committee itself; the minutes are signed jointly by the Secretary and the Chairman of the Committee, stored in chronological order together with the documentation supporting the assessments expressed by the Committee.

At the first useful Board of Directors, the Chairman informs about the decisions taken by the Committee.

During 2019, the Nomination Committee met No. 7 times (aside from No. 2 times, meeting was adjourned to a later date), and the average duration of the meetings was about 1 hour.

In 2020, approximately No. 5 meetings are scheduled, one of which was already held on 25 February.

For further information, please refer to Table 2 “*Composition of the board of directors and committees*” attached to the Report.

In addition to the Secretary, the Chairman of the Board of Directors, the Chairman of the Board of Statutory Auditors and/or a member of the Board of Statutory Auditors, the Consultant, responsible for the performance of related operational activities, took part in the work of the Nomination Committee with regard to the Self-assessment process.

7.2 FUNCTIONS OF THE NOMINATION COMMITTEE

The Nomination Committee carries out proactive and advisory functions to support the Board of Directors in the process of appointing and co-opting the Directors and drafting of the Board List.

To this end, the Nomination Committee assists the Board of Directors **in the process of defining the composition of the Bank's Board of Directors**, taking care that this reflects an adequate degree of diversification, also in terms of competence, experience, gender and international projection, and that is consistent and adequate with respect to the requisites

envisaged by current legislation, by the By-Laws and by the Regulations of the Board of Directors, as well as by the results of the self-assessment process and the Diversity Policy of the BoD. Specifically, the Nomination Committee plays an advisory and proactive role in favor of the Board of Directors in the process of:

- a) prior identification of the optimal qualitative and quantitative composition of the Board of Directors, respecting, *inter alia*, provisions on gender equality; having regard to the results of the Self-assessment and the Diversity Policy of the BoD, it expresses recommendations on the professional figures whose presence may favor the correct and effective functioning of the Board, contributing to the preparation of the plan for the succession of executive directors and the definition of the Board List;
- b) determination - in compliance with legislation, including regulations, in force at the time, of the maximum number of administration and control offices, and assessment of the cases that should be implemented in derogation of the ban on competition provided by Article 2390 of the Italian Civil Code; and
- c) verifies the correspondence between the composition of the Board of Directors referred to in point a) and that effectively resulting from the appointment process.

In case of co-option - that is, in the case of appointment by the members in office of directors to replace members of the Board of Directors ceased before the expiry of their term of office, the Nomination Committee, based, *inter alia*, on the Diversity Policy of the BoD, expresses its opinion on the suitability of the candidates that, based on the analysis performed by the Board of Directors on a preventive basis, they were deemed suitable to replace the Director who had ceased. This opinion is disclosed by the Bank to Shareholders during the first Shareholders' Meeting following the co-option.

The Committee also proposes to the Board of Directors candidates for the office of Director in cases of co-option, where it is necessary to replace independent Directors.

In the event of co-option, the Nomination Committee verifies in advance the existence of the requisites of honor, professionalism and independence as per the applicable laws in force, the By-Laws and the Regulations of the Board of Directors, for candidates to the position of Bank Director.

Furthermore, the Committee issues an opinion to the Board of Directors regarding the resolutions concerning the possible replacement of the members of the Internal Board committees.

If the Shareholders' Meeting is responsible to nominate the Directors (for example, termination of their mandates or removal of the entire Board of Directors), the provisions laid down in the Regulation of the Board of Directors, the Diversity Policy of the BoD, and the Regulation on Self-assessment shall apply.

The Nomination Committee has also advisory and propositional tasks, supporting the Board of Directors, in the following *governance* processes:

- a) appointment and co-optation of Directors
- b) definition of the Board List;
- c) Self-assessment by the Board of Directors;
- d) verification of the professionalism, integrity and independence requirements by Directors, in addition to compliance with the limits on the number of positions held in accordance with the Board of Directors' Regulations and the absence of grounds for incompatibility, also for Interlocking purposes;
- e) possible definition of succession plans in executive top management;
- f) drafting the Diversity Policy of the BoD.

I. *Self-assessment by the Board of Directors*

The Nomination Committee supports the Chairman and the Board of Directors in the self-assessment process of the Board itself, as required by the “*Regulation on the self-assessment process of the Board of Directors*”. Specifically, the Nomination Committee proposes to the Chairman of the Board of Directors the internal staff who will conduct the self-assessment process. In order to ensure independence of judgment, it was envisaged that an external professional could be appointed to support the Board of Directors in said activity. In this case, the Nomination Committee supports the Board of Directors in the selection of the external professional. The criteria for identifying internal personnel or any external professional are outlined in the “*Regulation on the self-assessment process of the Board of Directors*”, taking

into account the requirements of neutrality, objectivity and independence of judgment necessary for the self-assessment process.

II. *Possible definition of succession plans in executive top management.*

The Nomination Committee assists the Board of Directors in the eventual process of formalization of plans aimed at ensuring the orderly succession in executive positions in the event of termination due to expiry of the assignment or for any other cause, in order to guarantee the business continuity and avoid economic and reputational repercussions on the Bank and the Group.

III. *Drafting the Diversity Policy of the Board of Directors*

The Nomination Committee has consultative and advisory functions to assist the Board of Directors in the process of drafting and review of the Diversity Policy of the BoD, possibly with the help of external professionals.

In addition, the Nomination Committee assists the Board of Directors in the **annual verification** of the existence of the **requisites** of honorability, professionalism, independence, compliance with the limits on the number of offices and the prohibition of *interlocking directorships* pursuant to Article 36 of the “Salva Italia Decree”, in the hands of the members of the Board itself.

Furthermore, the Nomination Committee is responsible for supporting the Risk and Control Committee in **identifying the Managers of the Corporate Control Functions** whose appointment shall be submitted to the approval of the Board of Directors, having heard the opinion of the Board of Statutory Auditors.

The Nomination Committee performs its functions taking care to avoid that the decision-making processes of the Board of Directors are dominated by a single entity or by groups of subjects that could prejudice the Bank.

During the year, the Nomination Committee has, also:

- (i) supported the Board on Directors in carrying out subsequent verifications to the nomination, on (a) the existence of the requirements of professionalism, integrity and independence; (b) the absence of causes of incompatibility for *interlocking* purposes under Art. 36 Save Italy Decree; (c) compliance with the limit on the accumulation of offices as per Art. 9 of the Regulation of the Board of Directors;

- (ii) proposed to the Board of Directors the nomination of the Consultant to (a) support the Company operational activities in the yearly Self-assessment process and (b) prepare the Diversity Policy of the BoD;
- (iii) supported the Board of Directors in preparing and updating the Board of Directors' Diversity Policy;
- (iv) assisted the Chairman and the Board of Directors in the Board Self-assessment process;
- (v) expressed its assessments to the Board of Directors regarding the findings of the Self-assessment process 2019 and the Succession Plan of the Chief Executive Officer;
- (vi) verified the adequacy of Regulation of the Nomination Committee and submitted to the Board of Directors some proposals for amendment,
- (vii) expressed its opinion on the suitability of a candidate to fill the office of Director, in place of a Director who ceased to be a Director;
- (viii) supported the Board of Directors, following the appointment by co-optation of a Director, in the verification process: (i) the existence of the requirements of integrity and professionalism provided for by the law, including the regulations in force at the time, (ii) the absence of interlocking issues, and (iii) compliance with the limits on the number of positions held as set out in the Board of Directors' Regulations.

In its tasks, the Committee had the right to access all the necessary information, and to the relevant company departments. The Committee has availed itself of the assistance of the aforementioned Consultant.

The Board of Directors sets annually the spending *budget* available to the Committee to perform its tasks, which can be increased upon its motivated request. The Board of Directors, upon approval of 2019 *budget*, resolved the amount of Euro 10,000.00 in favor of the Committee, in order, for example, to take advantage of expert advice for the proper performance of the same tasks assigned.

8. REMUNERATION COMMITTEE

For the information required in relation to the constitution, duties and functioning of the Remuneration Committee, please refer to Section I, Chapter 5 and Section II, Chapter 13, Paragraph 2.4 of the Remuneration Report, to which reference is hereby made.

9. REMUNERATION OF DIRECTORS

Information on remuneration policies is provided in Section I, paragraph 5 and Section II, paragraph 2.5.5 of the Report on Remuneration, to which reference is hereby made.

10. RISKS AND CONTROL COMMITTEE

In order to conform its corporate governance model to the provisions of Circular No. 285 and to best *governance* practices, the Board of Directors set up, with resolution of 24 July 2014, established the "*Risk Committee*"²³. Following the Shareholders' Meeting of 5 April 2018, during which the Shareholders appointed the new Board of Directors, the Bank's administrative body - on the same date - renewed the "Risk and Control Committee" confirming the same composition.

10.1 COMPOSITION AND FUNCTIONING OF THE RISK AND CONTROL COMMITTEE (EX ARTICLE 123-BIS, PARAGRAPH 2, LETTER D), TUF)

10.1.1 Composition

Pursuant to the "*Regulation of the Risk and Control Committee*", the RC Committee consist of No. 3 (three) members of the Board of Directors, all non-executive and mostly independent pursuant to the By-Laws and Regulations of the Board of Directors. Therefore, the RC Committee is composed of No. 3 (three) members and, specifically, by non-executive Directors: Mrs. Gabriele Michaela Aumann (Chairwoman), Mr. Federico Fornari Luswergh and Ms Giorgia Rodigari²⁴. It should also be noted that the Chairwoman, Mrs. Gabriele Michaela Aumann, is independent pursuant to Article 148, paragraph 3 of the TUF and Article 3 of the Code, Mr. Fornari Luswergh is independent under the TUF²⁵ and Ms. Giorgia Rodigari is a non-executive Director.

The Chair of the RC Committee is assigned to Mrs. Aumann, an independent Director with extensive accounting, financial and/or risk management skills, as ascertained at the time of her appointment.

At the time of appointment, the Board of Directors also ascertained that all the members of the RC Committee comply with the professionalism and honorability requirements set out by the current regulatory provisions. The members of the RC Committee have the know-how, skills

23 By resolution of the Board of Directors of the 28 April 2016 the amendment was approved – subject to admission to listing (i.e. 7 April 2017) for the title of the Risk Committee into the "Risk and Control Committee".
24 Replaced Mr. Luigi Sbrozzi on 11 December 2019.

25 As explained in greater detail in paragraph 4.6, the fact that Mr. Fornari no longer meets the independence requirement pursuant to the Code of Conduct is the exclusive consequence of the fact that he has been a Director of the Bank for more than nine years (he was first appointed in April 2010). On 10 May 2019, the Board of Directors resolved that the fact that the nine-year period has been exceeded has not led to the requirement of independence pursuant to the Corporate Governance Code for the purposes of participation in Committees.

and experience to fully understand and monitor the strategies and the risk orientations of the Bank and the Group.

The Committee's term of office coincides with that of the Board of Directors and, therefore, the RC Committee lapses upon termination of the Board of Directors

Should one or more members of the RC Committee fail for any reason, the Board of Directors provides the replacement with its members, ensuring the presence of at least two independent directors and at least one member with adequate experience in accounting and accounting financial and/or risk management.

It should also be noted that, pursuant to the “*Regulations of the Risk and Control Committee*”, the Chairman of the Board of Directors, Mr. Salvatore Messina, participates by right in the meetings of the RC Committee.

10.1.2 Functioning

The RC Committee meets, when convened by its Chairman, or its deputy, in the place determined by the latter, preferably at the Company's headquarters, by means of a specific notice containing the items on the agenda, transmitted to all its members at least 3 (three) days before the meeting (subject to urgency). The RC Committee shall also be convened whenever required by the Chairman of the Board of Statutory Auditors.

The following are permanently invited to attend the meetings of the RC Committee as well:

- as stated before, the Chairman of the Board of Directors and
- the Chairman of the Board of Statutory Auditors, so that the presence of at least one member of the control body is guaranteed.

The activity of the RC Committee is coordinated by the Chairman, who prepares the work of the Committee, presides over it and directs, moderates and coordinates the meetings. In his absence, the Committee is chaired by its oldest member.

All meetings of the RC Committee are minuted by the Secretary, appointed from time to time, even outside its members; the minutes are signed jointly by the Secretary - appointed from time to time and also chosen from subjects outside the RC Committee - and by the Chairman of the RC Committee, stored in chronological order and adequately accompanied by illustrative and explanatory documentation of the items on the agenda, on the basis of which the relevant determinations have been taken.

The Chairman informs on each meeting of the RC Committee at the first useful meeting of the Board of Directors.

During 2019, the RC Committee met No. 16 times, and the average duration of the meetings was about 1 hour and 50 minutes.

During 2020, approximately No. 14 meetings, of which No. 3 were held respectively on 28 January, 10 February and 24 February.

For further information, please refer to Table 2 “*Composition of the board of directors and committees*” attached to the Report.

Given that all the members of the RC Committee have the professional qualifications required by the current regulatory provisions, at the time of appointment, the Board of Directors ascertained that Mrs. Aumann had adequate experience in accounting and financial matters and/or risk management process.

Under invitation of the Chairman, the Chief Executive Officer, the Directors, the Heads of Corporate Control Functions may be called upon to participate in the Committee's work, where it is deemed useful and appropriate for the correct handling of the items on the agenda, as well as those responsible for other functions or other subjects, including third parties.

During the meetings of the Committee, in addition to the Chairman of the Board of Directors, as a participant by right, and the members of the Board of Statutory Auditors, the following were also invited to take part in the discussion of individual items on the agenda:

- i) the Chief Executive Officer, in his capacity as Appointed Director (above stated);
- ii) the Director of Group Risk Management;
- iii) the Director of Group Compliance and AML;
- iv) the Director of Group Internal Audit;
- v) the Director of the Planning, Administration and Control Department, and the Chief Reporting Officer;
- vi) the CFO, Vice President Finance and Administration²⁶;
- vii) the Vice President of the Finance and Credit Department;²⁷
- viii) the General Counsel;

²⁶ Role held since 3 June 2019.

²⁷ Role held until 1st April 2019.

- ix) the Vice President of the Factoring Department;
- x) the Head of Information and Communication Technologies B.U. in the Privacy field;
- xi) the Head of the Legislation and Processes B.U.;
- xii) the Head of the Credit Assessment B.U.;
- xiii) the Chairman of the Supervisory Board;
- xiv) representative of the Auditing Firm;
- xv) the representatives of Avvera S.r.l. – a company operating as Data Protection Officer at Group level.

10.1.3 Functions assigned to the Risk and Control Committee

The RC Committee performs advisory and consultative functions vis-à-vis the Board of Directors, in order to support, with an adequate preliminary activity, the assessments and decisions of the Board relating to the Internal Control and Risk Management System, and to periodic financial reports.

Pursuant to the “*Regulation of the Risk and Control Committee*” and the current applicable regulation, with particular reference to the tasks relating to risk management and control, the RC Committee provides support to the Board of Directors in:

- a)** defining and approving strategic guidelines and risk governance policies. Within the framework of the RAF, the RC Committee carries out the evaluation and propositional activity necessary to the Board of Directors, in compliance with the provisions of Circular No. 285 - and implemented in the ROA adopted by the Bank -, to define and approve the *Risk Appetite* and the *Risk Tolerance*;
- b)** verifying the effective implementation of the strategies, the risk governance policies and the RAF, approved by the Board of Directors;
- c)** defining policies and processes for the evaluation of company activities, including the periodic verification of the consistency as regards profitability and the risks assumed by the Bank and the Group in transactions with customers, with respect to the *business* model and the strategies defined by the Company regarding risk

In assisting the Board of Directors, the RC Committee also:

- d)** with the contribution of the Nomination Committee, identifies and proposes to the Board of Directors the Managers of the Company Control Functions to be appointed;

- e)* examines in advance the business plans (including the *audit* plan prepared by the *Internal Audit* Function) and the annual reports of the Corporate Control Functions sent to the Board of Directors;
- f)* examines the periodic reports, concerning the evaluation of the Internal Control System, prepared by the Corporate Control Functions;
- g)* expresses opinions and makes proposals to the Board of Directors on compliance with the principles to which the Internal Control System and the corporate structure of the Bank and the Group shall be standardized;
- h)* evaluates opinions and makes proposals to the Board of Directors on the requirements that shall be respected by the Corporate Control Functions, and on specific aspects concerning the identification of the main corporate risks, bringing to the Board of Directors attention any weaknesses found and the consequent actions to be promoted. To this end, assess the proposals of the Chief Executive Officer;
- i)* monitors the autonomy, adequacy, effectiveness and efficiency of the Company Control Functions;
- j)* contributes, through evaluations and opinions, to defining the corporate outsourcing policy of the Corporate Control Functions;
- k)* verifies that the Corporate Control Functions conform correctly to the indications and lines established by the Board of Directors, and assists the latter in the preparation of the ROA;
- l)* assesses, together with the Financial Reporting Manager, after consulting the Auditing Firm and the Board of Statutory Auditors, the correct use of accounting principles in preparing the financial statements and their uniformity in the consolidated financial statements or interim financial statements;
- m)* supports, with adequate preliminary activities, the assessments and decisions of the Board of Directors relating to the management of risks deriving from injurious facts, of which the Board of Directors has come to know;
- n)* expresses opinions on specific aspects concerning the identification of the main business risks;
- o)* reports to the Board, at least every six months, at the approval of the annual and semi-annual financial statements, on the activity carried out, as well as on the adequacy of the

Internal Control System; in any case, after each meeting, the Committee updates the Board of Directors, at the first useful session, on the topics discussed and the observations, recommendations and opinions formulated therein.

On 25 February 2020, in order to take into account the recommendations made in the seventh "Annual Report on the application of the Code of Conduct on the evolution of corporate governance of listed companies", as detailed in section 19, the Board of Directors supplemented the tasks of the RC Committee, providing for investigative, advisory and propositional functions and, more generally, support to the Board of Directors on issues relating to sustainability and non-financial reporting, as of the date on which its preparation becomes mandatory for the Company.

In its tasks, the RC Committee exchanges with the Board of Statutory Auditors all information of mutual interest and, where appropriate, coordinates with the control body. The RC Committee defines any information flows that shall be addressed to it in terms of risks, identifying its object, format and frequency. The RC Committee, where necessary, has the right to intervene with the individual Control Functions, including the *Internal Audit* Function, according to the issues identified, for the performance of checks on specific operating areas, giving simultaneous notice to the Chairman of the Board of Statutory Auditors.

During the year, the RC Committee, without prejudice to the responsibilities of the Remuneration Committee, ascertains that the incentives underlying the remuneration and incentive system of the Bank and the Group are consistent with the RAF.

As regards the *Recovery Plan*, the Risk and Control Committee: i) expresses opinions in support of the Board, both during the elaboration and updating of the *Recovery Plan* itself, and in the event of the thresholds being exceeded and the *recovery options*; ii) monitors the implementation of the *recovery option* and informs the Board thereof; iii) supports the Chief Executive Officer (or other specifically appointed Director) and the Board of Directors in defining communications once the state of *recovery* has been declared.

The RC Committee has fulfilled the provisions of the specific operating standards of reference. *Inter alia*, it has:

- i) shared RAF review and update and verifying their consistency with the 2019 budget;

- ii) assessed the application of international accounting standard "IFRS 16 - Leases" as from 1 January 2019, using the "Modified retrospective approach";
- iii) took note of the annual report on the functioning of the internal systems for "whistleblowing" reporting;
- iv) reviewed the reports of the Supervisory Body;
- v) expressed its opinion on questions of jurisdiction of the "Annual report on corporate governance and ownership structure" for the year 2018;
- vi) reviewed the reports prepared by the Corporate Control Functions, and reported the contents considered relevant and their observations and assessments in this regard to the Board of Directors;
- vii) reviewed in advance the 2019-2021 multiannual *Audit Plan* and its subsequent additions, as well as the annual reports of the Corporate Control Functions;
- viii) positively assessed and informed the Board of Directors of the level of completion of the control activities carried out in the previous year on the Group by the individual Corporate Control Functions;
- ix) took note of the *Internal Audit* report on incentive and remuneration policies and practices for the year 2018;
- x) with reference to the consistency of the remuneration and incentive systems with respect to the RAF, also examined: i) the "*Remuneration and incentive policies for the members of the BFF Group Strategic Supervision Bodies, Management and Control, and Personnel*", , and (ii) the incentives for the Group's remuneration and incentive system (MBO 2019), evaluating them in line with the RAF;
- xi) verified – together with the Chief Reporting Officer and coordinated with the Board of Statutory Auditors – - the correct use of accounting standards for the preparation of the individual and consolidated financial statements, respectively, of the Bank and the Group as at 31 December 2018, as well as for the preparation of individual accounting statements of the Consolidated First Half Financial Statements as at 30 June 2019, considering them to be correct and in continuity with previous years;
- xii) reviewed the *Recovery Plan*, prepared by the *Risk Management* Function, taking note of it and evaluating the *Recovery Plan* consistent with the Group *business model* , and with the RAF and the ICAAP;

- xiii) shared RAF review and update as a result, inter alia, supervisory updates (for example, on the *Internal liquidity Adequacy Assessment Process* ILAAP);
- xiv) examined the report on the activities carried out by the DPO in 2019;
- xv) examined the changes to the "*Policy for Goodwill Impairment Test*", which defines the basic elements of which it is the process of evaluating *impairment* (deterioration) of an *asset*, in accordance with the international accounting standard IAS 36 and the Bank of Italy/Consob/Isvap coordination document No. 4 of 3 March 2010 on the application of the IAS/IFRS aimed at updating, with respect to the previous year, only the methodological approach adopted by the Bank, without, however, modifying the guiding principles inspired by the regulations and already consolidated in the current policy;
- xvi) examined the "*Group policy on the prevention of usury*" and the regulatory compliance assessment expressed in this regard by the *Compliance & AML Function*;
- xvii) examined the updating of the internal regulations of the Bank and its branches in the field of anti-money laundering and the fight against terrorist financing;
- xviii) noted the work to update the Model 231;
- xix) acknowledging the results of ICAAP/ILAAP, and the relative judgment expressed by the *Internal Audit* Function, evaluating them in line with the guidelines of the business plan and the 2019 *budget*, as well as with the RAF and the Internal Control System;
- xx) having taken note of the annual report on the important outsourced operational functions, prepared by the *Internal Audit*, Function, and of the favorable opinion expressed by the Board of Statutory Auditors, proposing its approval to the Board of Directors and timely transmission to the Bank of Italy;
- xxi) prepared and approved the reports of the RC Committee on the activity carried out, and on the adequacy of the internal control and risk management system at 31 December 2018 and 30 June 2019;
- xxii) discussed the "2019-2021 Industrial Plan", examining in particular the assessments relating to first and second pillar risks made by the Risk Management Function;
- xxiii) as part of the assessment of the strategic planning process of the Internal Control System and risk management, also examined the results of the mapping of non-compliance risks and the presidia adopted for their mitigation;

xxiv) analyzed the performance of the Internal Control System and the evolution of significant risks, also examining:

- Policies, governance guidelines and regulations, for example, on the management of risks of non-compliance and anti-money laundering and counter-terrorism, management of credit risk mitigation techniques, and outsourcing,
- the management of information systems and business continuity;
- the document containing the disclosure to the public, at 31 December 2018, regarding capital adequacy, exposure to risks and the general characteristics of the systems used to identify, measure and manage the risks adopted by the Bank;
- examined the proposal to update the Credit Regulations of Banca Farmafactoring S.p.A., which defines the principles and rules for the functioning of the credit granting and management process by the Bank and its foreign branches with regard to its customers and debtors.

All meetings held during the year by the RC Committee were attended by at least one member of the Board of Statutory Auditors.

In its tasks, the RC Committee has the right to access company information and can directly interact with the individual Corporate Control Functions, according to the issues identified, for carrying out specific controls.

The Committee has the right to make use of external consultants, if it deems it necessary.

The Board of Directors sets annually the spending budget available to the Risk and Control Committee to perform its tasks, which can be increased upon its motivated request.

The Board of Directors, upon approval of 2019 budget, resolved the amount of Euro 10,000.00 by the Committee, in order, for example, to take advantage of expert advice for the proper performance of the same tasks assigned.

11. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Group has adequate management and control mechanisms in order to face the risks to which it is exposed. These presidia are part of the organization and of the Internal Control System (ICS), aimed at ensuring management based on efficiency, effectiveness and fairness, covering every type of corporate risk, in line with the characteristics, dimensions and complexity of the Group's activities.

The Bank has adopted an Internal Control and Risk Management System which involves, each for its own competences:

- a) the **Board of Directors**, that plays a role of addressing and assessing the adequacy of the system, and that has identified within it: (i) the **Chief Executive Officer**, as the officer in charge of the establishment and maintenance of an effective Internal Control and Risk Management System (as specified in Section 11.1 of the Report), as well as (ii) the **RC Committee**, with the task of supporting, with adequate activity preliminary assessment, evaluations and decisions of the Board of Directors relating to the Internal Control and Risk Management System, as well as, *also*, those relating to the approval of periodic financial reports;
- b) the **Risk Management Function** and the **Compliance and AML Function**, with specific tasks in terms of internal control and risk management, articulated in relation to the size, complexity and risk profile of the company;
- c) the **Internal Audit Function**, charged with verifying that the Internal Control and Risk Management System is functional and adequate;
- d) the **Chief Reporting Officer**, with specific risk management and internal control tasks associated with the consolidated financial reporting process;
- e) the **Board of Statutory Auditors**, that oversees the effectiveness of the Internal Control and Risk Management System;
- f) the **Supervisory Body**, to which the tasks of verification, application and updating of the organization, management and control model are assigned, pursuant to Article 6 of Legislative Decree No. 231/2001.

The Board of Directors defines and approves the guidelines for the Internal Control and Risk Management System, in line with the strategic guidelines, the significant risks identified and

the risk appetite established by the same, also assessing that this ICS is capable of to understand the evolution and interaction of business risks.

The Board of Directors has defined the guidelines for the Internal Control System, ensuring that the main business risks are identified, managed and monitored appropriately. Specifically, the Board assessed all types of risk at a consolidated level, and approved the hiring in a structured manner for all Group entities and for all countries and markets in which it operates. In this context, in compliance with the Supervisory Provisions, the Parent Company's Board of Directors defines and approves the RAF on an annual basis, based on the *business* model and the related risk profiles of each Group company, the *budget*, the strategic plan, the ICAAP and the Internal Control System, in order to ensure that the Group's operations develop within the identified risk profile and in compliance with national and international regulations.

For each type of risk, the RAF envisages the risk objectives or the risk appetite that the Bank intends to assume at Group level for the pursuit of its strategic objectives (“*Risk Appetite*”), any tolerance thresholds (“*Risk Tolerance*”) and operating limits under both normal operating and *stress* conditions.

Therefore, the Board of Directors, with reference to each type of risk, in the RAF:

- has identified the set of *risk appetite* indicators and the relative calculation metrics;
- has defined and approved the risk objectives (“*risk appetite*”), the tolerance thresholds (“*risk tolerance*”), and the risk governance policies;
- has established operating limits consistent with risk appetite;
- has ensured that the implementation of the RAF is consistent with the risk objectives and the expected tolerance thresholds.

The Parent Company's Board of Directors has the ultimate responsibility for the definition and execution of the *Recovery Plan*. Particularly:

- evaluates and approves the *Recovery Plan*, as well as any modifications or additions thereto;
- approves the internal regulations of reference, as well as any amendments or additions thereto;
- evaluates, on the basis of the information produced by the *Risk Management* Function, the actual relevance of the Group's tension situation, assuming the appropriate resolutions for the activation of the *Recovery Plan* and for the management of the crisis status, through

- the appropriate *recovery options*, or by establishing to manage the exceeding of the thresholds in the context of other *risk governance* presence;
- defines the operational powers to manage the *Recovery Plan*, as well as the execution of *recovery*, to assign to the CEO or another Director delegated by the Board of Directors;
 - decides on the communication strategies (instruments, recipients, timing), while at the same time granting specific operational delegation to the CEO or another Director delegated by the Board of Directors for the management and governance of communication within the crisis phase;
 - is the recipient of reporting and a specific communication on the implementation and effectiveness of the implemented *recovery* actions;
 - resolves the completion of the *recovery* status;
 - resolves the possible launch of *malus* and *claw back* actions against Group personnel, taking into account the external and internal regulations of the Group itself.

The Board of Directors assesses, at least on an annual basis, the completeness, adequacy, functionality and reliability of the ICS and, more generally, its compliance with regulatory requirements.

The ICS has been designed in line with the regulatory and regulatory framework, with the Group's organizational structure and in line with the best national and international *standard* and practices. Specifically, in compliance with the provisions of the regulatory provisions, it is based on the following three levels of protection.

I. First level checks

The first level checks (so-called “line controls”) are designed to ensure the smooth operation of operations, and are experienced by the same operating structures that perform them, with the support of IT procedures.

II. Second level checks

The second level checks (so-called “checks on risks and compliance”) – aimed at ensuring the correct implementation of the risk management process and compliance of the company's operations with the rules and monitoring of the risk of money laundering and terrorist financing - are respectively assigned to the *Risk Management* Function and the *Compliance* and *AML* Function, which, in line with the current prudential supervision regulations, perform the following main tasks:

- i)* the *Risk Management* Function: (I) ensures the consistency of risk measurement and control systems with the processes and methods of company activities, coordinating with the Company Structures concerned; (ii) oversees the implementation of the process of determining capital adequacy; (iii) oversees risk management controls, in order to contribute to the definition of measurement methods; (iv) supports the Corporate Bodies in the definition of the RAF; (v) verifies compliance with the limits assigned to the various operating functions, and checks the consistency of the operations of the individual areas of the Group with the assigned risk-return objectives;
- ii)* the *Compliance and AML* Function it is an integral part of the reference framework relating to the set of presidia prepared by the Bank, as the Parent Company, for the management and management of the risk of incurring legal or administrative sanctions, significant financial losses or damage to reputation as a result of violations of mandatory rules (laws, regulations) or self-regulation (e.g. statutes, codes of conduct, self-regulatory codes). More specifically, the *Compliance and AML* Function: (i) oversees, according to a *risk-based* approach, the management of the risk of non-compliance with the rules, with regard to all the activities falling within the reference regulatory framework of the Bank and the Group, continuously assessing the internal processes and procedures adopted are adequate to prevent this risk, and identifying the significant risks to which the Bank and its Subsidiaries are exposed; (ii) measures, assesses and monitors the relevant risks; (iii) guarantees an overall and integrated view of the risks to which the Bank and its Subsidiaries are exposed, ensuring adequate disclosure to the Corporate Bodies of the Bank and its Subsidiaries. As regards *anti money laundering*, the Compliance and AML Function has the task to: (i) preventing and combating the implementation of money laundering and terrorist financing operations, also identifying the rules applicable in this area on an ongoing basis; (ii) verify the consistency of the processes with the aim of ensuring compliance by the Bank and its subsidiaries of the rules aimed at combating money laundering and terrorist financing, and is responsible for controls under the anti-money laundering legislation for prevention of the use of the

financial system for the purpose of laundering the proceeds of criminal activities and the financing of terrorism.

III. Third level checks

Internal audit activities are carried out by the *Internal Audit* Function, placed on the *staff* of the Board of Directors. The *Internal Audit* Function performs independent audits, as well as for the Parent Company and its Branches, for the BFF FI, as part of a special service contract that regulates the provision of the *audit* service, and in the institutional setting, as a Parent Company, for the BFF Polska. The ROA specifies that the *Internal Audit* Function, with a view to third-level controls, evaluates the overall functionality of the ICS, bringing to the attention of the Corporate Bodies the possible improvements, with particular reference to the RAF, to the risk management process, as well as the instruments for measuring and controlling them.

In connection with the financial reporting process, the ICS includes the risk management and internal control system associated with the consolidated financial reporting process.

Pursuant to Article 154-*bis* of the TUF, the Chief Reporting Officer prepares adequate administrative and accounting procedures for the preparation of the financial statements of BFF and the consolidated financial statements, and ensures that they are effectively applied.

In order to be able to fully comply with the provisions of the law, the Board of Directors approved the “*Regulations of the Chief Reporting Officer*”, which describes the general criteria, and defines the responsibilities and relationships between the Parent Company and its Subsidiaries in the evaluation of the status of the Internal Control System, on *financial reporting*.

As part of the financial reporting process, all the main key controls relating to the relevant administrative and accounting processes have been defined and formalized, which should guarantee the reliability and correctness of the economic-financial information and an audit activity has been planned to attest the adequacy of procedures and the effectiveness of controls. The methodological approach applied is aimed at allowing the highest level of analysis by the Chief Reporting Officer of the Internal Controls System, with a view to the risks of incorrect representation at the level of *financial reporting*.

The approach adopted provides the analysis of the results of the verification activities of adequacy and effectiveness of accounting controls, conducted by the structure of the Chief Reporting Officer.

In light of this, the methodological approach involves the execution of the following activities:

- identifying the scope of analysis for the purposes of attesting the consolidated half-yearly financial statements and the consolidated financial statements;
- carrying out checks on the Internal Controls System at entity level;
- carrying out adequacy and effectiveness checks on the internal control system at the process level;
- examining the results of the verification activities performed by control functions in place within the Group, in order to identify any elements useful for assessing the monitoring provided by the Internal Control System on the risks of *financial misstatement*;
- identifying any gaps, analyzed to assess the consequences in terms of residual risk and the potential impacts on the economic result.

The purpose of the methodology used by the Parent Company is to provide the Group's corporate bodies at consolidated level with an effective tool for the management and monitoring of the ICS, the essential elements of which can be described as follows:

- **control environment** : allows to reflect the importance of the culture of internal control in the organization of the company, set up by the *executive*, with particular regard to integrity and ethical values, the philosophy and corporate style of *management*, the organizational structure, the attribution of authority and responsibility to personnel management policies and personnel skills;
- **risk assessment**: allows the assessment of risks that could have an impact on the achievement of company objectives, by resorting to the definition of methods for identifying and analyzing the risks;
- **information and communication**: it allows a correct management of information flows between the various company structures, so that all the subjects belonging to the structure correctly perform the activities of competence;
- **auditing activities**: allows a correct management of the information flows among the different set of activities that allows a correct management of the risks, in order to achieve the pre-established company objectives;
- **monitoring**: continuously verifies the reliability of the implemented SCI.

The theoretical model underlying the integrated SCI is represented, in its specific analysis dimensions, by:

- a) **process level checks:** able to verify the presence of an efficient ICS on the processes examined, which ensure the correct formation of the accounting data. Therefore, the reliability of the financial information is guaranteed by the presence of a structured first and second level ICS, with regard to the individual company, which is functional for ascertaining the adequacy and effective and continuous application of the aforementioned processes;
- b) **company-level checks:** suitable for verifying the existence of an adequate ICS at company level, which reduces the risk of errors and/or incorrect behavior for the purposes of financial reporting;
- c) **checks on ICT processes:** suitable for assessing the adequacy of the governance rules of the technological infrastructure and of the applications relating to sensitive processes.

Due to the significant responsibilities entrusted to him, the Chief Reporting Officer has the appropriate powers and means to perform his tasks, as specified in section 11.5 of the Report.

The Chief Reporting Officer receives from the organizational units of the Bank the maximum collaboration necessary for the execution of the activities within its competence, having guaranteed free access to all environments, information, accounting records and documentation relating to its activities. In case of need, moreover, this can request information or documents located at external suppliers, through the relative internal contact person for the outsourced activity. Finally, the Chief Reporting Officer has the right to agree with each organizational unit involved in the process, the methods of transmission of the information flows necessary for performing its tasks. The Chief Reporting Officer, in exercising its tasks, uses the Financial Reporting Officer B.U., which has as main responsibility the assessment of the completeness, adequacy, functionality and reliability of the ICS, with specific reference to the production of the information financial and risk management that the latter may be incorrect.

The Bank, as a "Public Interest Entity" - even though it does not yet fall within the dimensional characteristics provided for by Article 2 of Legislative Decree no. 254 of 30 December 2016, which transposed Directive 2014/95/EU on the communication of non-financial information, introducing in Italy the obligation to prepare a non-financial declaration on environmental, social and personnel issues, respect for human rights and the fight against active and passive corruption - has decided to prepare its first Consolidated Declaration of a non-financial nature

for the year 2019 (the "NFD"), on a voluntary basis, in accordance with the provisions of Article 7 of the aforementioned decree.

The Board, with the support of the RC Committee, and after sharing of the Chief Executive Officer and the Board of Statutory Auditors, during the year, approved the "2016-2018 *Farmafactoring Banking Group Audit Plan - 2018 Revision*" prepared by the Internal Audit Function.

The Board of Directors, with the support of the RC Committee, during the year, assessed, in line with the Supervisory Provisions, the functioning of the Internal Control System and risk management, judging it to be adequate, effective and effectively implemented with respect to the characteristics of the Bank and the Group. This assessment takes into account the plan for the implementation of the improvement points identified following the checks carried out by the Corporate Control Functions.

11.1 DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The role of director responsible for the establishment and maintenance of an effective ICS (the "Appointed Director"), was entrusted, most recently by resolution of the Board of Directors of 24 April 2018, to the CEO.

In particular, in accordance with Article 7.C.4 of the Code of Conduct and the Supervisory Provisions, the Appointed Director, without prejudice to the provisions of primary and secondary banking legislation:

- a) has an understanding of all business risks and, within the framework of an integrated management, of their mutual interrelations and with the evolution of the external context. In this context, he is able to identify and evaluate factors, including the complexity of the organizational structure from which risks may arise for the Bank;
- b) executes the strategic guidelines, the RAF and the risk governance policies defined by the Board of Directors, and is responsible for the design, implementation and management of the Internal Control System and risk management, in compliance with the Supervisory Provisions on the internal control system, constantly monitoring compliance with it;
- c) implements the initiatives and interventions necessary to continuously guarantee the completeness, adequacy, functionality and reliability of the Internal Control System, and brings the results of the checks to the knowledge of the Board of Directors;

- d) deals with adapting the ICS to the dynamics of operating conditions and the legislative and regulatory framework;
- e) may request the *Internal Audit* Function to carry out checks on specific operating areas and compliance with internal rules and procedures in the execution of company operations, giving simultaneous notice to the Chairman of the Board of Directors, the Chairman of the RC Committee and the Chairman of the Board of Statutory Auditors;
- f) promptly reported to the RC Committee (or the Board of Directors) regarding problems and critical issues that emerged in the performance of his business or of which he had any news, so that the committee (or the Board) could take the appropriate initiatives.

11.2 HEAD OF INTERNAL AUDIT FUNCTION

Mrs. Marina Corsi is the Head of the *Internal Audit*²⁸ since 22 March.

The “*Regulation of Internal Audit*” provides that the Head of the *Internal Audit* is appointed by the Board of Directors, upon the proposal of the RC Committee, which makes use of the Nomination Committee's contribution, after consulting the Board of Statutory Auditors and after evaluating the requirements of authority, professionalism and independence²⁹. The Head of the *Internal Audit* exercises, with reference to the BFF Polska group, the direction, coordination and supervision of the *audit* activities carried out by the competent structure, and reports to the Board of Directors of BFF FI in relation to the internal audit service provided.

The Board, after obtaining the favorable opinion of the 'Risk Committee' and after consulting the Board of Statutory Auditors, approved the remuneration of the Head of the *Internal Audit* in line with the Bank's remuneration and incentive policies, and ensured adequate human and financial resources to fulfill her duties.

The remuneration of the Head of the *Internal Audit* is defined by the Board of Directors, upon the proposal of the Remuneration Committee, in line with the Bank's remuneration and incentive policies and in compliance with the regulations on remuneration and incentives³⁰. The

²⁸The appointment was made in compliance with the Supervisory Provisions at the time in force.

²⁹ The aforementioned nomination procedure complies with the Supervisory Provisions, which prevail over those of the Code, according to which the proposing role of the subject who should hold the position of Head of the *Internal Audit* lies with the RC Committee.

³⁰ Also in this regard, the process of determining the remuneration of the Head of the *Internal Audit* has been identified pursuant to the Supervisory Provisions, which prevail over those of the Code of Conduct, according to which the proposed role is assigned to the Remuneration Committee.

remuneration policies envisaged for the Head of the *Internal Audit*, in accordance with the remuneration and incentive policies approved by the Shareholders' Meeting of the Bank's shareholders, provide its exclusion from the *stock options*, as well as attributing the variable part of the remuneration within the limit of one third of the fixed part, within the criteria and parameters unrelated to the Bank's economic results.

In order to guarantee her independence, the Head of Internal Audit does not have direct responsibility for operational areas nor is she hierarchically subordinate to persons in charge of operational areas, reporting hierarchically only to the Board of Directors.

The Head of the *Internal Audit* verifies, both on an ongoing basis and in relation to specific needs, and in compliance with international *standards*, the operation and suitability of the internal control and risk management system, through an *audit plan*, approved by the Board of Directors, based on a structured process of analysis and “prioritization” of the main risks (“*risk based*” approach) valid for the whole Group.

The *audit plan*, as required by the *Internal Audit* Regulation, is multi-year, and indicates the control activities planned over a period of three years, and according to a “*process oriented*” logic. The *audit plan* is updated whenever the need arises, at the request of the Corporate Bodies, of the Supervisory Body and/or on the proposal of the Head of the *Internal Audit*. The plan is annually reviewed by the Head of the Internal Audit Function and approved by the Board of Directors.

The *Internal Audit* Function, in 2019, had access to all the Issuer's activities, including outsourced activities, carried out both at central offices and at peripheral structures. In the case of assignment to third parties of activities relevant to the operation of the Internal Control System (for example, of the data processing activity), the *Internal Audit* Function has also been able to access the activities performed by these subjects. Furthermore, it has direct access to all information useful for the performance of the assigned task.

The Head of the *Internal Audit* has submitted a “*tableau de bord*” to the Corporate Bodies and the RC Committee on a quarterly basis, summarizing the results of the *audit* and *follow-up* activities (any shortcomings found, level of problems, corrective action, timing and *owner*)

concerning the Bank, the Subsidiaries and the Branches of the Bank itself. This information is promptly transmitted to the Bank of Italy.

In addition, the Head of the *Internal Audit*, as required by the “*Internal Audit Regulation*”, reports with the following frequency:

- annually, to the Board of Directors and the Board of Statutory Auditors of the Bank, in its capacity as Parent Company, on the results of the checks carried out on the Group as a whole and on the individual companies that comprise it. The annual report is promptly transmitted to the Bank of Italy;
- periodically, to the Board of Directors of the subsidiary BFF FI, on the *audit* activity carried out on the basis of a service contract;
- annually (by 30 April), to the Board of Directors, with the considerations of the Board of Statutory Auditors, on the verification activity performed on the important FOIs, on any deficiencies or anomalies found, and on the consequent corrective actions taken. The information is promptly transmitted to the Bank of Italy;
- annually, at the Shareholders' Meeting, on the correspondence of the remuneration practices with the approved policies and the relevant legislation, after having taken note of the report of the *Internal Audit* by the Remuneration Committee, the Board of Statutory Auditors and the Board of Directors;
- annually, to the Corporate Bodies, on the proper functioning of the internal reporting systems (so-called *whistleblowing*);
- annually, to the Board of Directors, on the *audit* report on related parties, upon prior review by the RPT Committee.

As part of the process of preparing the Group's recovery plan, the Internal Audit Function supports the assessments of the Control and Risk Committee and the Board of Statutory Auditors, based on the checks carried out.

Internal Audit collaborates on an ongoing basis with the other corporate control functions of the Parent Company and its Subsidiaries, as well as with the Board of Statutory Auditors and with the Supervisory Body.

In addition, the Head of *Internal Audit* Department, as responsible of internal systems for reporting (the so-called *whistleblowing*), is required to prepare an annual report on the proper functioning of internal reporting systems, containing aggregate information on the results of the

activities carried out following the reports received, which must be approved by the Corporate Bodies and made available to Bank staff.

Pursuant to the “*Internal Audit Regulation*”, its Head may directly communicate the results of the assessments and investigations to the Corporate Bodies.

During the financial year, in addition to the quarterly report, the Head of the *Internal Audit* provided the Corporate Bodies with specific reports on particularly significant events, both of a regulatory nature and operational nature.

Internal Audit carried out periodic checks on the reliability of the information systems, including the accounting recognition systems, both with *ad hoc* checks and as part of the activities envisaged in the “*2019-2021 Three-year Audit Plan*”; reporting the outcome in the quarterly report.

The Head of the *Internal Audit* has a specific annual *budget* approved by the Board of Directors, which can be used independently for the performance of its activities within the Group. This budget for specialist support relating to the Bank and its branches, as well as its foreign subsidiaries, amounted to a total of 147,000 Euros for the year 2019.

During the year, the Head of the *Internal Audit* carried out the verification activities envisaged by the “*2019-2021 Three-year Audit Plan*”, both on the Bank and on the Subsidiaries and the Portuguese, Spanish and Polish Branches, with a different depth depending on the risk, continuously carrying out follow-up activities on all Group companies.

The Head of Internal Audit reported for the Parent Company on the actions taken in the following areas: (i) compliance, with reference to outsourcing of important functions, ICAAP and ILAAP process, supervisory reporting, recovery plan, conflict of interest management, business continuity and ICT, Interbank Deposit Protection Fund, complaints management, third pillar, anti-money laundering for all Group companies; (ii) credit, with reference to credit management and recovery processes in the context of the freedom to provide services in Greece; (iii) accounting, with reference to the purchasing process and analysis of accounting systems and late payment interest at Group level; (iv) governance, with reference to remuneration and incentive policies, new markets and new products, with particular focus on the start-up of the free provision of services in France; (v) Branch, with reference to the operations of the

Portuguese Branch and the commercial communication policy for the Spanish Branch. As far as the subsidiaries are concerned, the results have been finalized: (i) activities relating to the governance and credit area for BFF FI, with particular reference to management and court-ordered recovery; (ii) activities relating to the accounting, credit, liquidity, compliance and governance areas for the BFF Polska Group.

Furthermore, during 2019, the Head of the *Internal Audit* has:

- collaborated with the other control functions and with the Chief Reporting Officer, also by transmitting the reporting of his activity;
- interacted with the Risk and Control Committee, with the Board of Statutory Auditors and with the Supervisory Body (of which it is also a member), reporting on its work and transmitting the corporate reporting on its activities. He also held contacts with the external auditing company;
- interacted with the Bank's *management*, to share with the process managers the *audit* activity and transmitting the reporting of the monthly *follow-up*;
- prepared and implemented, for the staff of the *Internal Audit* of the Parent Company and BFF Polska, training plans, also with support, in order to promote their professional growth;
- promoted a quality improvement program, obtaining the maintenance of the certification, according to the UNI EN ISO 9001: 2015 *standard*, of the planning and execution process of the *audit* activity for the Bank and BFF Polska.

During the year, the Bank has no total or partial outsourcing contract for the *Internal Audit*.

11.3 ORGANIZATIONAL MODEL LEGISLATIVE DECREE NO. 231/2001

The Model 231 adopted by the Bank provides, first of all, a "General Section" which includes, in addition to a brief description of the contents of Legislative Decree no. 231/2001, the characteristics and essential components of the Model 231, the functions and powers of the Supervisory Body, the system of information flows and communications to/from the Supervisory Body, the system of sanctions for violations of the provisions contained in the Model 231 and its disclosure requirements, and personnel training.

Model 231 also provides some “Special Sections”, as follows: (i) a "Special Section I - Matrix of activities at risk of crime", with the purpose of identifying the types of crime that may potentially be committed in carrying out the activities pertaining to the Issuer; (ii) a "Special Part II - Protocols", which sets out the activities, controls and reporting mechanisms designed to ensure the adequacy of the organisational and control system of the Issuer and its Branches to Legislative Decree no. 231/2001; (iii) a "Special Section III - Information flows to the Supervisory Body".

The Code of Ethics, adopted at Group level, express the founding values and the rules of corporate ethics that the Group recognizes as its own, which requires compliance by all the subjects identified as recipients within the code itself. The Code of Ethics adopted by the Group, despite having its own independent value, affirms the ethical-behavioral principles that are also suitable for preventing illegal behavior pursuant to Legislative Decree no. 231/2001, thus acquiring relevance also for the purposes of Model 231, and becoming a complementary element.

The Bank is committed to disseminating these rules of conduct at Group level in order to ensure that its activities are carried out in accordance with the ethical principles referred to therein. To this end, it communicates the Code of Ethics to its Subsidiaries for adoption, possibly making changes to it to take account of local regulations.

At 31 December 2019, the Supervisory Board consist of Mr. Franco Fondi (a professional external to the Group), who serves as Chairman, Mr. Silvio Necchi (a professional external to the Group) and Ms. Marina Corsi (Head of Internal Audit).

The activity of the Supervisory Body carried out in 2019 was mainly directed to the verification of the adequacy of the Model 231 also in a Group logic, to the control of information flows, to the examination of the reports of the *Internal Audit* and of all the other control functions, to carry out independent checks carried out also with the support of the *Internal Audit*.

The Supervisory Body has also kept constantly updated, to the extent of its competence, on projects of strategic importance for the Bank, and has shared the updates of Model 231 approved by the Board of Directors in the course of 2019, both in relation to the new ones significant crimes pursuant to Legislative Decree 231/2001, and related to the evolutions of the Bank's and the Group's organizational structure.

BFF FI adopted its own organizational model in compliance with Article 31-*bis* of the Spanish Criminal Code (the “**Model 31-bis**”), and structured in a similar way, to the extent compatible, with the Model 231 of the Bank (e.g. with a general part, a special part with a matrix of the assets at risk, and a part relating to information flows). As part of the approval of Model 31-*bis*, a specific local Supervisory Body was also appointed, established in a monocratic form.

With regard to BFF Polska, in accordance with Polish regulations, specific guidelines have been adopted to oversee the 'anti-corruption' issues, with the identification of a specific single-minded body responsible for this, represented by the local *Compliance* and *AML* functions.

11.4 LEGAL AUDITING COMPANY

The firm appointed to audit the Bank's accounts is PricewaterhouseCoopers S.p.A., with registered office in Milan, Viale Monte Rosa, No. 91; the assignment was conferred by the Shareholders' Meeting, on the motivated proposal of the Board of Statutory Auditors, on 3 May 2012, for the years from 2012 to 2020. On 11 April 2016, the Shareholders' Meeting supplemented the task entrusted to the Legal Auditing Firm, for the financial years 2016-2020, in order to make it compliant with the provisions applicable to companies with shares listed on regulated markets. Furthermore, the Meeting, on 5 April 2018, upon proposal of the Board of Statutory Auditors, approved to supplement the remuneration paid to them in order to take account of tasks required following the entry into force of the reform regarding the legal auditing of accounts referred to in Regulation (EU) No. 537/2014 and Directive 2014/56 (implemented in Italy by Legislative Decree No. 135/2016), as well as related activities, among other things, with the introduction of the new international accounting standard IFRS 9, and the acquisition of the BFF Polska group.

11.5 THE CHIEF REPORTING OFFICER OF PREPARING CORPORATE ACCOUNTING DOCUMENTS AND OTHER CORPORATE ROLES AND FUNCTIONS

11.5.1 The Chief Reporting Officer

On 24 April 2018, the Board of Directors confirmed, with the favourable opinion of the Board of Statutory Auditors - as Chief Reporting Officer - Mr. Carlo Maurizio Zanni, Group Planning, Administration and Control Director (who is mainly responsible for the powers described in Section 11 in relation to the financial reporting process). On such occasions, the Board of Directors positively verified that Mr. Zanni has the requisites of integrity and professionalism envisaged for that role by the By-Laws and by current legislation, as well as a proven financial,

administrative and accounting experience, being the same employed by the Company since 2002, Vice President of the Planning, Administration and Control department since 2010, and Director Planning, Administration and Control since 3 June 2019.

Pursuant to Article 18 of the Articles of Association, the Board of Directors, after having obtained the mandatory (but not binding) opinion of the Board of Statutory Auditors, appoints and revokes the Chief Reporting Officer, and determines the remuneration and duration of the appointment. In addition, the Chief Reporting Officer shall have, in addition to the requisites of honorability prescribed by law for those who perform administrative and management functions, also professional requirements characterized by specific financial, administrative and accounting competence. This competence, to be ascertained by the same Board of Directors, shall be acquired through work experience in positions of adequate responsibility for a reasonable period of time.

The Chief Reporting Officer has adequate powers and resources for the exercise of the tasks assigned to him by law. In this regard, the Parent Company's Board of Directors monitors the effective availability by the Chief Reporting Officer of these means and powers, in compliance with the accounting procedures (Article 154-*bis*, paragraph 4, of the TUF).

The Chief Reporting Officer shall:

- i) access all information relevant or necessary for the purpose of carrying out its tasks. He may, therefore, request information, data or processing of the same to all the corporate structures of the Companies included in the scope of consolidation;
- ii) be invited to take part in every meeting of the Parent Company's Board of Directors which has on the agenda the approval of the financial statements, of the consolidated financial statements, of the half-yearly financial reports, or of other data/decisions relevant to the statements that he is required to provide. The Chief Reporting Officer is also invited to attend the Shareholders' Meetings whenever deemed appropriate by the Chairman of the Board of Directors or the Chief Executive Officer, or if matters of relevance for accounting information are included in the agenda;
- iii) access to the minutes/documentation of the meetings of the Board of Directors of all the Subsidiaries included in the scope of consolidation.

The Chief Reporting Officer, in addition to holding a managerial position with a hierarchical level reporting directly to the Chief Executive Officer of the Parent Company, has the right to:

- a) carry out checks on company processes with direct or indirect impact on the formation of periodic financial reports;
- b) be assisted, where necessary, by other Corporate Structures functional to the management of the Internal Control System (for ex. *Internal Audit, Risk Management, ICT, etc.*);
- c) to propose changes to the company processes and procedures for which the Chief Reporting Officer is not a *process owner*, including IT, which have an indirect impact on *reporting*.

The Chief Reporting Officer operates within the *budget* determined annually by the Board of Directors.

The Chief Reporting Officer is burdened with the burden to promptly notify to the Chairman of the Board of Directors of the need to make any adjustments or additions to its own *budget*. To this end, in an emergency, the *budget* assigned to the Chief Reporting Officer is likely to be exceeded by the latter - with immediate communication to the Chairman of the Board of Directors, and subsequent approval by the Board of Directors.

Within the framework of the Internal Control System and risk management, the *Risk Management* and *Compliance* and *AML* Functions also play an important role.

11.5.2 The Head of Risk Management

The Board of Directors has appointed Mr. Piergiorgio Bicci as Head of the *Risk Management*³¹. The “*Regulation of Risk Management*” envisages that the Head of the *Risk Management* is appointed by the Board of Directors, after consultation with the Board of Statutory Auditors, after assessing the independence and integrity requirements, autonomy and professionalism, and in compliance with the procedures set forth in the Supervisory Provisions.

As regards powers, the *Risk Management*, upon the motivated request and approval of the Chief Executive Officer, may avail itself of specialist resources, including external ones, in carrying out his activities.

³¹ The appointment was made on the proposal of the then "Risk Committee", after consulting the Board of Statutory Auditors, after assessing the requirements of independence and integrity, autonomy and professionalism, and in compliance with the methods set forth in the Supervisory Provisions.

The *Risk Management* had an annual spending *budget* which is agreed with the Chief Executive Officer according to the annual activity program presented to the Board of Directors.

With regard to the available tools, the *Risk Management*, in order to fulfill its tasks, shall:

- operate autonomously and independently, on the basis of an annual activity program approved by the Board of Directors;
- have the necessary resources to detect the effective monitoring of risks;
- have the maximum collaboration of the other Corporate Structures;
- have resources qualitatively (in terms of technical and professional skills and updating) and quantitatively (in numerical terms) adequate to the tasks to be performed;
- as well as the resources that hierarchically coordinates, avail of resources placed in different Corporate Structures referring directly to them for matters pertaining to the *Risk Management* tasks;
- access to all the activities carried out by the Bank and the Subsidiaries, and to any information deemed relevant, as well as to company and external data necessary to carry out their duties properly;
- have a separate organization from the *Internal Audit*, being subject to verification by this latter;
- collaborate on an ongoing basis with the other corporate control functions of the Parent Company and its Subsidiaries, as well as with the Control Bodies and with the Supervisory Body;
- guarantee the confidentiality of the acquired information.

The *Risk Management* makes use of suitable IT tools, having particular regard to the analysis of the most important assessed risks.

The Head of the *Risk Management* reports directly to the Corporate Bodies. In particular, he has direct access to the Board of Directors and the Board of Statutory Auditors, and communicates with them without restrictions or intermediaries.

11.5.3 The Head of Compliance and AML

The Board of Directors appointed Mr. Mario Gustato as Head of the *Compliance* and *AML*. The “*Regulation of the Compliance and AML*” envisages that the Head of the *Compliance* and *AML* is appointed by the Board of Directors, after consultation with the Board of Statutory Auditors, after assessing the independence and integrity requirements, autonomy and professionalism,

and in compliance with the procedures set forth in the Supervisory Provisions. On 31 May 2018, the Board of Directors also appointed Mario Gustato as Head of Suspicious Transaction Reporting.

As regards powers, the *Compliance* and *AML*, upon the motivated request, and subject to approval of the Chief Executive Officer, may avail itself of specialist resources, including external ones, in carrying out his activities.

The *Compliance* and *AML* operate autonomously and independently, on the basis of an activity plan approved by the Board of Directors; In this regard, the *Compliance* and *AML* shall:

- have the maximum collaboration of the other Corporate Structures;
- have resources qualitatively (in terms of technical and professional skills and updating) and quantitatively (in numerical terms) adequate to the tasks to be performed;
- access to all the activities carried out by the Bank and the Subsidiaries, and to any information deemed relevant, as well as to company and external data necessary to carry out their duties properly;
- have a separate organization from the *Internal Audit*, being subject to verification by this latter;
- collaborate on an ongoing basis with the other corporate control functions of the Parent Company and its Subsidiaries, as well as with the Board of Statutory Auditors and with the Supervisory Body.
- guarantee the confidentiality of the acquired information.

The Head of the *Compliance* and *AML* reports directly to the Corporate Bodies. In particular, he has direct access to the Board of Directors and the Board of Statutory Auditors, and communicates with them without restrictions or intermediaries.

11.6 COORDINATION BETWEEN THE SUBJECTS INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

In the ROA the duties and responsibilities of the Corporate Bodies and the Corporate Control Functions are described in detail, as well as the information flows between the several Functions/Bodies and between these and the Corporate Bodies, and are defined, in the case control areas of potential overlap or allow synergies to develop, coordination and collaboration arrangements.

With regard to the regulation of information flows between the Corporate Bodies and the Corporate Control Functions, please refer to Annex A – “*Information Flows*” attached to the ROA.

Consistent with the rules contained in the Supervisory Provisions on the control system, the Bank has identified some formalized moments of coordination between the Corporate Control Functions, in order to:

- a) promote the understanding and correct assessment of business risks;
- b) plan future control activities among Corporate Functions;
- c) identify shared *remediation* actions.

In order to provide an integrated management of business risks, an internal *meeting* calling is established (so-called “*Risk Meeting*”), at least quarterly and/or at event, with the objective of sharing the risks identified during the audit performed by the Corporate Control Functions among themselves (and the other Company Functions).

These meetings are also planned following the information flows between the Corporate Control Functions, and strengthen the monitoring of the various types of risk to which the Bank is exposed.

Given the identified risks, based on an agreed agenda, the participating functions share:

- a) the definition of *remediation* actions uniquely identified among all the participants;
- b) a summary of the risks identified by the participating functions and the actions necessary to mitigate the risks.

These meetings are also aimed at avoiding overlaps in common activities, while at the same time allowing constant monitoring of the implementation status of the mitigation actions themselves.

The Bank pays particular attention to the articulation of information flows among the Corporate Control Functions. In particular, the heads of *Risk Management*, and *Compliance* and *AML* inform the Head of the *Internal Audit* of the criticalities detected in their activities, which may be of interest for the *audit* activity. The Head of the *Audit*, in turn, informs the managers of the other Corporate Control Functions of any inefficiencies, weaknesses or irregularities that have emerged during the activities for which they are responsible, and regarding specific areas or matters pertaining to the latter.

For more information, refer to the ROA available on the following *website*:
<https://it.bffgroup.com/documents/20152/398427/BFF+-+ROA.pdf/8687377e-f11b-ff23-34e7-2da57802bd39>.

12. INTERESTS OF DIRECTORS AND TRANSACTIONS WITH RELATED PARTIES

On 11 November 2016³², the Board of Directors approved (effectively subject to the IPO), under the favorable opinion of the RPT Committee and the Board of Statutory Auditors, in accordance with Circular No. 263 and the Consob Related Parties Regulation, the “*BFF Banking Group's Regulation for the management of the transactions of parties with a conflict of interest related-party transactions*” (the “**RPT Regulation**”), available on the *website* at the following address: <https://it.bffgroup.com/en/related-party-transactions>.

The RPT Regulation pursues to protect over the risk that the possible closeness of certain subjects to the decision-making centers of the Bank could jeopardize the objectivity and impartiality of decisions concerning transactions with the same subjects, with possible distortions in the process of allocation of resources, exposures of the Bank to risks not adequately measured or monitored, potential damage to shareholders and *stakeholders*.

Specifically, the RPT Regulation also governs (i) the scope of the Related Parties, Associated Persons and corporate officers pursuant to Article 136 of the CBA; (ii) the scope of operations with the persons indicated in point (i); (iii) the procedures applicable to transactions with these parties in relation to the significance, with particular reference to the operational management of the same, from the preliminary requirements up to the decision-making *process*; (iv) the presidia adopted by the Issuer with reference to transactions with Related Parties and Associated Persons; (v) the identification of the prudential limits within which the assumption of risk assets towards the Associated Persons must be contained; (vi) exemptions and exceptions to procedures as defined; (vii) procedures for updating procedures; (viii) the information flow, internal and external, also to the public, and the consequent obligations.

On 11 November 2016, the Board of Directors approved, following the favorable opinion of the RPT Committee and the Board of Statutory Auditors, the “*Policies on internal controls adopted by the BFF Group for the management of conflicts of interest*” (the “**RPT Policy**”), available on the *website* at the following address: <https://it.bffgroup.com/documents/20152/398416/BFF+-+2016-12-05->

³² Certain formal amendments were made to the RPT Regulation, approved by the Chief Executive Officer on 11 July 2018.

[Policy+Gestione+conflitti+di+interesse+IPO+-+ENG.pdf/5d5ea749-3cff-8013-934e-e9552c192b9d.](#)

The RPT Policy establishes the guidelines to ensure that the organizational structure of the BFF Group and the Internal Control System ensure constant compliance with the prudential limits and the decision-making procedures set by the applicable legislation.

To this end, the RPT Policy regulates the control processes aimed at guaranteeing the correct measurement, monitoring and management of the risks assumed by the Group towards the Related Parties and the Related Parties, as well as verifying the correct design and effective application of the policies. internal, identifying the roles and responsibilities of the Corporate Bodies, the Corporate Control Functions and the RPT Committee.

In particular, the RPT Policy sets the objectives to: (i) identify, in relation to the operating characteristics and strategies of the Bank and the Group, the business sectors and the types of economic relationships, even if different from those involving the assumption of risk activities, in relation to which conflicts may arise of interest; (ii) establish levels of risk appetite consistent with the strategic profile and with the organizational characteristics of the Bank and the Group, also in terms of the maximum extent of risk assets with Associated Persons considered acceptable in relation to regulatory capital, with reference to the totality of exposures to all connected parties; (iii) establish and regulate organizational processes to: (a) identify and fully identify the Associated Persons and the Related Parties, and to recognize and quantify the related transactions at each stage of the relationship; (b) guarantee the correct measurement and management of the risks assumed towards the same Connected Persons and to the Related Parties, and verify the correct design and effective application of the internal policies.

13. APPOINTMENT OF STATUTORY AUDITORS

BFF By-Laws³³ provides that the Board of Statutory Auditors is composed of No. 3 (three) regular members and No. 2 (two) alternates, **appointed on the basis of lists** to be deposited at the registered office at least twenty-five days before the date set for the Shareholders' Meeting. The lists may be presented by a large number of Shareholders representing the percentage of share capital required by the regulations in force at the date of the Shareholders' Meeting. The lists are accompanied by the professional *curricula* of the individual candidates and the declarations of acceptance of the candidacy, certifying the existence of the requisites prescribed by law and by the “*Regulations of the Board of Statutory Auditors*”. The latter provides, in particular, that: (i) candidates shall have the requisites of honor, professionalism and independence pursuant to Article 148, paragraph 3 of the TUF, and comply with the provisions regarding the accumulation of offices, and that (ii) cannot be members of the Board unions who hold offices in bodies other than control bodies in other companies of the BFF Group, as well as in companies in which the Bank holds, even indirectly, strategic participation (as qualified by the Supervisory Provisions), nor those who hold the office as a director, manager or officer in companies or entities, or in any case collaborate in the management of companies, which operate, directly or indirectly, and also through subsidiaries, in the same sectors of the Bank.

The election of the members of the Board of Statutory Auditors proceeds as follows:

- a) two full members and one alternate member are taken from the list that obtained the highest number of votes (the majority list);
- b) from the list that obtained the majority of votes in the Shareholders' Meeting after the majority list, and that is not connected in any way, not even indirectly, with those who presented or voted for the majority list (the so-called minority list) are traits, in the order in which they are listed in the same list, the remaining effective member and the other alternate member; in the event that more than one list obtains the same number of votes, a new ballot will be held between these lists by all those entitled to vote in the Shareholders' Meeting, with the candidates elected from the list obtaining a simple majority of the votes.

33 Articles 22 et seq. of the Bank's By-Laws, available on the *website* at the following address:
<https://it.bffgroup.com/en/articles-of-association>.

The chairmanship of the Board of Statutory Auditors belongs to the actual member indicated as the first candidate on the minority list. In the event of replacing the Chairman of the Board of Statutory Auditors, the chairmanship is assumed by the alternate auditor belonging to the same minority list of the terminated president, according to the progressive order of the list itself, without prejudice to the possession of the legal requirements and / or by-laws to cover the position and respect of the gender balance provided by the regulations.

If the application of the slate voting mechanism does not ensure, considering the standing statutory auditors and the alternate auditors separately, the minimum number of statutory auditors belonging to the less represented gender envisaged by the regulations, the candidate belonging to the most represented and elected gender, indicated as last in progressive order in each section of the majority list, will be replaced by the candidate belonging to the less represented and unelected gender taken from the same section of the same list according to the progressive presentation order.

In the event of death, renunciation or forfeiture of a statutory auditor, the first substitute belonging to the same list as the one terminated shall take over. In the event that the takeover does not allow the reconstitution of a Board of Statutory Auditors complying with the law, also concerning gender balance, the second alternate from the same list takes over.

If, subsequently, it becomes necessary to replace a further statutory auditor taken from the majority list, the additional substitute statutory auditor drawn from the same list shall in any case take over.

If it is not possible to proceed with substitutions according to the aforesaid criteria, a Shareholders' Meeting is convened for the integration of the Board of Statutory Auditors, that decides by relative majority.

When in the case described above, or in accordance with the law, the Shareholders' Meeting shall appoint the standing auditors and/or the alternate auditors necessary to integrate the Board of Statutory Auditors, proceed as follows:

- whether it is necessary to replace elected auditors in the majority list, the appointment is made by a relative majority vote without a list restriction, without prejudice, in any case, to compliance with the gender balance provided by the regulations;
- if, on the other hand, statutory auditors elected on the minority list are to be replaced, the Shareholders' Meeting replaces them by a relative majority vote, choosing them, where

possible, from the candidates indicated in the list of the auditor to be replaced, and in any case principle of the necessary representation of minorities, without prejudice, in any case, to respect the gender balance provided by law.

If only one list has been submitted, the Shareholders' Meeting expresses its vote on it; if the list obtains the relative majority, the candidates indicated in the respective section of the list are elected as permanent and alternate auditors; the chairmanship of the Board of Statutory Auditors lies with the person indicated in first place in the aforementioned list.

Outgoing auditors are re-eligible.

14. COMPOSITION AND FUNCTIONING OF THE BOARD OF AUDITORS (ARTICLE 123-BIS, PARAGRAPH 2, LETTERS D) AND D-BIS), TUF)

The current Statutory Auditors of the Bank were appointed by the Ordinary Shareholders' Meeting of 5 April 2018, by application of the voting list mechanism (described in section 13 and articles 22 and following Articles of the By-Laws); their office expires with the approval of the financial statements at 31 December 2020.

For the appointment of Board of Statutory Auditors, two lists were submitted³⁴, respectively by:

- BFF Lux, proposed to the Meeting the following candidates: (i) Mr. Marco Lori, (ii) Mrs. Patrizia Paleologo Oriundi and (iii) Mr. Giancarlo De Marchi (the “**Majority List**”);
- Studio Legale Trevisan, on behalf of a group of minority shareholders, consisting of institutional investors, which is not related to BFF Lux list, who allegedly represent 4.189% of the Bank's share capital, proposed to the Meeting the following candidates: (i) Mrs. Paola Carrara and (ii) Mr. Fabrizio Riccardo Di Giusto (the “**Minority List**”).

The Majority List has the highest number of votes equal to 46.15%, while the Minority List has obtained a number of votes equal to 19.92% of the Bank's share capital represented at the Meeting, equal overall to 68.02% of the Bank's share capital itself³⁵.

³⁴ For further information, refer to the lists available on the website under the section “*Governance/Meeting Documentation/Shareholders' Meeting 5 April 2018*”.

³⁵ The reported data are approximate by excess or by default to the second decimal place. For more information, please refer to the summary of the Meeting votes of 5 April 2018, available on the website under the section “*Governance/Meeting Documentation/Shareholders' Meeting 5 April 2018*”.

The **Board of Statutory Directors in office**, thus appointed by the Ordinary Shareholders' Meeting on 5 April 2018, comprised the following No. 3 (three) members:

- Mrs. Paola Carrara, statutory auditor indicated as the first candidate in the Minority List, who shall also chair Board of Statutory Auditors
- Mr. Marco Lori, former Chairman of the Board of Statutory Auditors, who was appointed auditor, ceasing as Chairmanship office;
- Mrs. Patrizia Paleologo Oriundi, already Auditor, was confirmed in Office.

In addition to information on the composition of the Board of Statutory Auditors shown in Table 3 – “*Composition of the Board of Statutory Auditors*” attached to this Report, pursuant to Article 144-*decies* of the Consob Issuers' Regulation, the main personal characteristics and professional profiles of each Auditor are shown below (whose *curricula vitae* were published in the form of a notice on the *website* in the section “*Governance/Governance Structure/Board of Statutory Auditors*”).

Paola Carrara Chairman of the Board of Statutory Auditors	<p>She graduated with honors in Economics at the University of Bergamo. Expert in auditing and accounting services, she acquired many years of experience within industry groups and service companies, as well as in the financial sector with reference to relevant national and international banking groups listed on the stock exchange. She is a member of the Board of Directors of a company, which is listed in the STAR segment and AIM, as well as a member of the Board of Statutory Auditors and the Supervisory Body in different companies. She is a founding member and director of accounting and consulting firms in the field of <i>accounting</i> and <i>compliance</i> services. She was <i>senior manager</i> in primary auditing firm where she gained extensive experience, also internationally, as part of the <i>assurance</i> services and <i>internal audit</i> unit manager of an editorial group listed. She has been working for more than fifteen years as a lecturer with the Faculty of Economics at the University of Bergamo to the course of “<i>General and Applied Accounting</i>”. She is author of publications and participates as a speaker at conferences, seminars and training courses organized by professional associations on budgetary issues, IAS/IFRS international accounting standards, national accounting, corporate control.</p>
Marco Lori (Regular Auditor)	<p>He graduated in Business Administration (specialized in Corporate Finance) from the Bocconi University of Milan in the academic year 1981-1982. He is registered in the Order of Chartered Accountants since 1993, and in the Register of Accounting Auditors since 1995. From 1982 to today, he works as a Chartered Accountant at Studio Lori & Associati, in which he held, and still holds, various positions as a member of the board of statutory auditors. He also acts, and still act, as head of the <i>compliance</i>, <i>internal audit</i> and/or anti-money laundering functions with financial intermediaries (closed-end real estate funds and closed-end funds for</p>

	corporate holdings). He is Chairman and member of the supervisory body <i>pursuant to</i> Legislative Decree No. 231/2001 in various financial intermediaries and listed companies.
Patrizia Paleologo Oriundi (Regular Auditor)	She graduated in Business Administration (specialized in professional service of chartered accountant) from the Bocconi Commercial University in Milan in 1980. She is a member of the Order of Chartered Accountants in Milan since 1983. She is a registered certified public accountant since 1992, and an Auditor since 1995. After having worked as a professional collaborator with the Luigi Biscozzi - Augusto Fantozzi Law Firm in Milan from 1980 to 1986, in 1987, she began her professional collaboration at the Studio Associato Palumbo of Milan - a collaboration lasting until 1997. Since 1998, she is the owner of the Professional Association “ <i>Studio Tributario e Legale – Studio Tributario</i> ”, whose business is focused both on direct clients and professional law firms and accountants. She is a member of the AODV231 association. For over 30 years, she has carried out auditing activities as chairman of the board of auditors, regular auditor or member of supervisory bodies <i>pursuant to</i> Legislative Decree No. 231/2001 in several companies operating in the industrial, commercial, financial and insurance sectors.

In 2019, there were No. 32 meetings of the Board of Statutory Auditors, for an average duration of 3 hours and 50 minutes, with an average attendance percentage of 94.79%.

With regard to participation in the meetings of the corporate bodies to which the Board of Statutory Auditors is required to participate, in 2019:

- compared to the meetings of the Board of Directors, the average percentage of participation is 98% (all the absences were justified by the involved Statutory Auditors from time to time);
- compared to the Shareholders' Meetings (held on 28 March 2019), the participation percentage is 100%;
- compared to the meetings of the RC Committee, the percentage of participation is 91%, given that all meetings were attended by at least one Statutory Auditor.

About 30 meetings have been scheduled for the current financial year, of which no.5 have already been held.

For more details, refer to Table 3 – “*Composition of the Board of Statutory Auditors*” attached to the Report.

14.1 CRITERIA AND DIVERSITY POLICIES

With reference to their nomination, the ByLaws provides that the lists containing a number of candidates equal to or greater than three, shall include candidates of different gender both in the list section relating to Auditors, and in the row for alternate auditors.

The Board of Statutory Auditors in office is composed of 2 women and 1 man and therefore, one out of three standing members belongs to the least represented gender.

The Board of Statutory Auditors on 17 December 2018, adopted its *Diversity Policy*, pursuant to the provisions of Art. 123-bis, paragraph 2, lett. d-bis) of the TUF, taking into account, inter alia, the outcomes of the self-assessment process for the year 2018.

This policy lays down optimally the main features of the composition of the Supervisory Body – including aspects such as age, gender composition and the educational and professional background – so that the same may exercise effectively their supervisory task, taking decisions that may actually benefit from the contribution of multiple qualified and diverse points of view, able to examine issues being discussed from different perspectives. Particularly, we consider that the optimal composition of the Board of Statutory Auditors should be oriented towards at least the following criteria:

- (i) the presence of the majority of Statutory Auditors entered in the relevant register;
- (ii) maintaining at least a share of one third of the members of the Board of Statutory Auditors, at the time of nomination and during the term in office, belonging to the less represented gender;
- (iii) the balanced combination of different age groups within the Board of Statutory Auditors, in order to allow a balanced plurality of perspectives and experiences;
- (iv) without prejudice to the adoption of appropriate training plans to ensure the technical skills of mayors are preserved over time, to pursue a balance between continuity and renewal control requirements, observe a balanced combination of varying seniority.

The implementation of the policy shall take place in respect of the law and the ByLaws in nominating the Board of Statutory Auditors via the list voting mechanism.

* * *

The Board of Statutory Auditors verified the independence of its members following their nomination, and sent the results of those checks to the Board of Directors, which, on (i) 24 April 2018, having taken note of the assessments carried out, ascertained the existence of the independence requirements according to Art. 148 paragraph 3 of the TUF and Art. 3 of the Code of Conduct for all Statutory Auditors (the outcome of the checks was made known via a press release on 26 April 2018), (ii) on 10 May 2019, it reviewed the continued independence requirements of its members during the year, informing the Board of Directors of the outcome of these reviews on 10 May 2019.

The members of the Board of Statutory Auditors have also reviewed the matters referred to in Articles 3 and 8 of the Code of Conduct, verifying that they meet the additional independence requirements set forth therein.

With reference to the requirement of independence, the Board of Statutory Auditors applied the criteria set forth in Article 148, paragraph 3 of the TUF, also for the purposes of Article 26 of the CBA, in accordance with the By-Laws.

In this regard, please refer to Section 4.2.3 of this Report.

The Meeting, on 5 April 2018, given the effort involved, the importance of the role played and the dimensional characteristics and sectoral of the Bank, resolved to give to members of the Board of Statutory Auditors a total annual gross remuneration of Euro 215,000, of which Euro 85,000 payable to the Chairman of the Board of Statutory Auditors and Euro 65,000 Euros for each standing auditor.

Article 5, paragraph 2 of the “*Regulations of the Board of Statutory Auditors*” provides that the Statutory Auditor who, on his own behalf or on behalf of third parties, has an interest in a specific transaction of the Bank promptly and comprehensively shall inform the other Statutory Auditors and the Chairman of the Board of Directors of the nature, terms, origin and scope of their interest. Furthermore, the Statutory Auditors are relevant subjects pursuant to the RPT Regulation and Article 136 of the CBA; therefore, the related procedures put in place with the Bank or with its Subsidiaries will apply the related reinforced procedures to oversee the substantial and procedural correctness of the transactions with related parties.

According to the “*Regulations of the Board of Statutory Auditors*”, as part of its activities, the Auditors may request the *Internal Audit* to perform checks on specific operating areas or company transactions. In addition, the Board of Statutory Auditors and the RC Committee promptly exchange information relevant to the performance of the related tasks.

The Board of Statutory Auditors, in carrying out its activities, has been coordinated on a continuous basis with the *Internal Audit*, the Chief Reporting Officer, and the Audit Firm. Appropriate functional links, within the sphere of their respective competences, have been activated with the RC Committee, at whose meetings during the year the Board of Statutory Auditors participated, as well as through the continuous dialogue and the effective exchange of information between the two Bodies.

15. RELATIONS WITH SHAREHOLDERS

In the interests of a dialogue with institutional and private investors, analysts and *rating*, agencies, and of a constant flow of information to the market, the Bank has set up specific sections (“*Governance*” and “*Investor Relations*”) on its *website*, easily identifiable and accessible, in which information regarding the *governance* of the Company is made available, so as to allow its Shareholders to exercise their rights, as well as access to economic and financial information, to the data and to the updated documents of interest for the generality of the Shareholders themselves.

The Board of Directors appointed as *Investor Relator*, with effect from 31 July 2017, Mr. Enrico Tadiotto.

On 29 June 2017, the Board of Directors constitutes two new Functions, both in the Chief Executive Officer’s *staff*:

- the *Investor Relations, Strategy and M&A* Functions, which is assigned the task of managing relations with Shareholders and with equity and bond investors, and with responsibility for the valuation of extraordinary corporate transactions;
- the Communication and Institutional Relations Function, which is assigned the task of managing: institutional relations that the Bank and the Group have with the Public Administration; (iii) relations with the Farmafactoring Foundation.

The *Investor Relator* is responsible for the public disclosure of privileged information (interfacing, to this end, also with the Supervisory Authorities), supports the CEO in managing relations with market operators, and takes care of publishing press releases on the *website*, and of the documentation subject to disclosure to the public, also for the purpose of exercising its rights by the Shareholders.

16. SHAREHOLDERS' MEETINGS (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 2, LETTER C), TUF)

The Shareholders' Meeting, regularly convened and constituted, represents the universality of the Members, and its resolutions, taken in accordance with the law and the By-Laws, bind all Members, even if absent or dissenting.

In accordance with current regulations, the By-Laws (Articles 9 et seq.) provide that the Shareholders' Meeting is convened in ordinary and extraordinary cases in the cases of the law, and decides on the matters assigned to it by law and by the By-Laws. It is held at least once a year, within one hundred and twenty days from the end of the financial year, or within one hundred and eighty days of such closure (where this term is required in relation to the preparation of the consolidated financial statements, or in relation to the Company's structure and the object). The Extraordinary Shareholders' Meeting is, however, called whenever it is necessary to resolve on any of the matters reserved by the applicable legislation.

The Shareholders' Meeting is held in a single call, in compliance with the provisions of the law. The By-Laws, however, in order to maintain adequate organizational flexibility, reserves to the Board of Directors the right to provide, for single Shareholders' Meetings, a plurality of calls, including a possible third call.

The meeting is called by the Board of Directors in accordance with the law and regulations, by means of a notice published on the *website*, as well as by the other methods provided by current regulations, including the publication of an abstract in daily newspapers. The agenda is established by law and the By-Laws by those exercising the power to call. Within the term of publication of the convocation notice provided for each of the subjects on the agenda - or the different deadline envisaged by other legal provisions -, the Board of Directors makes a report on each of the subjects available to the public on the agenda.

Shareholders who, even jointly, represent at least 2.5% of the share capital may - in the cases, ways and terms indicated by current legislation - request the integration of the agenda, or present proposals for resolutions on matters already on the agenda. Shareholders requesting the integration of the agenda prepare a report containing the motivation for the proposed resolutions on the new subjects they are proposing to discuss, or the other proposed resolutions on matters already on the agenda.

Shareholders, in accordance with the provisions of Article 127-ter of the TUF, may ask questions on the items on the agenda even before the Shareholders' Meeting. The questions received before the Shareholders' Meeting will be answered at the latest during the same, even through a single response to questions with the same content.

The intervention in the Shareholders' Meeting is regulated by the By-Laws and by the *Shareholders' Meeting Regulations* (Articles 2 et seq., the “**Shareholders' Meeting Regulations**”), which establish that it is legitimate to participate and vote the person for whom the Issuer has received, by the end of the third open market day preceding the meeting, a communication made by the intermediary on the basis of the evidence relating to the end of the accounting day of the seventh open market day preceding the date set by the Shareholders' Meeting, in single call. Entitlement to the intervention and to the vote remains valid if the communication is received by the issuer beyond the terms indicated above, provided that it is within the start of the meeting's work for the single call.

The parties entitled to attend and vote may be represented in the Shareholders' Meeting by written proxy, or conferred electronically when required by the regulatory provisions and in accordance with the same, without prejudice to the incompatibilities and limits established by law. They can also give free proxy, with voting instructions on all or some of the proposals on the agenda, to a representative appointed by BFF pursuant to Article 135-undecies of the TUF. The Shareholders' Meeting Regulations regulate and guarantee the orderly execution of the Shareholders' Meeting works, assigning to the President of the Shareholders' Meeting - identified in the person of the Chairman of the Board of Directors - the task of ascertaining the proper constitution of the same, ascertaining the identity and legitimacy of those present, directing and regulating the Shareholders' Meeting, and ascertaining and proclaiming the voting results.

The Shareholders' Meeting is competent to resolve, inter alia, on:

- i) approval of the financial statement and distribution of profits;
- ii) appointment and revocation of the Board of Directors and the Board of Statutory Auditors;
- iii) responsibility of the members of the Board of Directors and of the Board of Statutory Auditors;
- iv) appointment and revocation of the company in charge of the legal audit;

- v) operations relating to the extraordinary Shareholders' Meeting pursuant to the law;
- vi) remuneration policies and compensation plans based on financial instruments for the Directors, employees and collaborators of the Group, the criteria for determining the remuneration to be paid in the event of early termination of the employment relationship or office, as well as the possible setting of the limit 200% of the fixed remuneration for variable remuneration, in accordance with the provisions of the Bank of Italy on the matter³⁶.

The Board of Directors reports to the Shareholders' Meeting on the activities carried out in the context of the management report, and prepares the reports on the matters on the agenda within the time prescribed by the applicable legislation.

In addition to the possibility of exercising its own shareholders rights by proxy, the Shareholders' Meeting Regulations do not provide other mechanisms to make the Shareholders' Meeting intervention and the exercise of voting rights by the Shareholders less difficult or burdensome.

The votes of the Shareholders' Meeting are made by open scrutiny. The Chairman of the Shareholders' Meeting may also establish that the voting takes place using informatics detection tools, and, in this case, he may also request assistance from technicians external to the Company for the related obligations.

With reference to the Meeting held on 28 March 2019, no shareholder proposals, concerning topics on which had not been formulated by directors a specific proposal, were submitted. It should be noted that, in view of the Shareholders' Meeting to be held on next April 2, the Board of Directors recommended to Shareholders that any proposals on items on the agenda be presented well in advance of the date of the Shareholders' Meeting, in line with what was hoped for in the note on Article 9 of the Code.

On 11 April 2016, the Shareholders' Meeting approved the Shareholders' Meeting Regulations, which, together with the law and the By-Laws, rule the conduct of the Ordinary and

³⁶ In compliance with the provisions of the Bank of Italy on the matter, the By-Laws provide that the Shareholders' Meeting decides on the proposal of the Board of Directors on the limit between fixed remuneration and variable remuneration, approved with: (i) the favorable vote of at least 2/3 of the share capital represented in the Shareholders' Meeting, when this is constituted with at least half of the share capital; or (ii) with a favorable vote of at least 3/4 of the capital represented in the Shareholders' Meeting, whatever the share capital with which it is incorporated.

Extraordinary Shareholders' Meeting of the Bank. The Shareholders' Meeting Regulations are available on the *website* at the following address: <https://www.bffgroup.com/documents/20152/398427/Regolamento+Assembleare.pdf/6485ee9e-465e-821a-f151-7737d89f1107>.

Article 6 of the Shareholders' Meeting Regulations states that the Chairman of the Shareholders' Meeting, identified as the Chairman of the Board of Directors, establishes the procedures for requesting intervention and the order of the interventions in the Shareholders' Meeting.

Who is entitled to exercise the right to vote may ask to speak on the matters under discussion only once, making observations and requesting information. These can also make proposals regarding the items on the agenda. The request can be made until the Chairman of the Shareholders' Meeting has declared the discussion on the subject of the meeting closed.

Who is entitled to exercise the right to vote may ask to take the floor a second time during the same discussion, solely for the purpose of replying or issuing explanations of vote.

The Chairman, considering the object and the importance of the individual items on the agenda, as well as the number of requests for action and any questions asked before the Shareholders' Meeting, to which the Company has not already given an answer, in the opening of the works predetermines the duration of the interventions and of the replies - normally not less than ten minutes for the interventions and five for the replies - available to each entitled person. After this time, the Chairman may invite the participant to conclude within the following two minutes. Questions received before the Shareholders' Meeting will be answered at the latest during the meeting. The Company can provide a single answer to questions with the same content, which is not due when the information requested is already available in the "Q&A" format in a specific section of the Company *website*. The Chairman or, under his invitation, those who assist him, answer the questions received before the Shareholders' Meeting, to which the Company has not already given an answer and to those posed by those present, immediately, or at the end of all the interventions.

During the Shareholders' Meeting of 28 March 2019, No. 6 Directors were in attendance. On that occasion, the Board of Directors made available to Shareholders, in accordance with the applicable legal provisions, an adequate information on the elements necessary for them to be able, with full knowledge of the facts, to take decisions regarding the Shareholders' Meeting.

Information on the activities carried out by the Remuneration Committee was provided to Shareholders with the Annual Report on the remuneration and incentive policies of the BFF Group, on the occasion of the Shareholders' Meeting on 28 March 2019.

The market capitalization of the shares recorded the following values from the beginning of the year:

Date	Market price	Number of shares outstanding	Market capitalization
02/01/19	6,415	170,107,400	1,091,238,971.00
30/12/19	4.54	170,107,400	772,287,596.00

On 29 March 2019, following the sale of 22,000,000 Shares (corresponding to approximately 12.9%) of the share capital, as part of an accelerated bookbuilding procedure, BFF Lux's interest in the Bank fell from 45.792% to 32.859%, as shown in the communication sent pursuant to art. 120 of the TUF.

It should be noted that the Board of Directors had already proposed to amend Article 15 of the By-Laws - approved by the Shareholders' Meeting on 28 March 2019 - in order to give the outgoing Board of Directors the power to submit its own list of candidates in the event of full renewal of the Board, with a view to ensuring continuity in the Bank's governance, in view of a potentially less concentrated shareholder base than at present and increasingly characterized by a significant presence of institutional investors.

17. FURTHER CORPORATE GOVERNANCE PRACTICES (ARTICLE 123-BIS, PARAGRAPH 2, LETTER A), TUF)

During 2019, No. 4 extra-board meetings were held in order to probe specific topics.

18. CHANGES AFTER THE END OF THE RELEVANT FINANCIAL YEAR

After the end of the financial year, the relevant events described below have occurred:

- following the sale of 18,700,000 Shares, as part of an accelerated bookbuilding procedure concluded on 9 January 2020, settlement date 14 January 2020, BFF Lux's interest in the Bank has fallen to 21.809%, as shown in the communication sent pursuant to art. 120 of the TUF;
- on 12 February 2020, the capital increase to Euro 131,364,092.09, corresponding to 170,602,717 shares, was registered with the Companies' Register. It followed the issue of 48,939 new shares for the Free Capital Increase resulting from the SOP exercise - carried out in cashless mode - between 22 January 2020 and 5 February 2020.

19. CONSIDERATIONS ON THE LETTER OF 19 DECEMBER 2019 BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE

On 29 January 2020, the Chairman of the Board of Directors reviewed the letter of the Chairman of the *Corporate Governance* Committee, Mrs. Patrizia Grieco (the "**Notice**") containing, inter alia, the recommendations for 2020 referred to the 7th "*Annual report on the application of Code of Conduct regarding the evolution of corporate governance of listed companies*" (the "**Recommendations**"), to assess the possible *governance* evolutions or to fill any gaps in the application of the Code of Conduct.

The decisions taken by the Board of Directors, together with the Board of Statutory Auditors (the "**Decisions**") on that occasion, are set out below.

"Recommendation 1: the Committee invites the Boards of Directors to integrate the sustainability of the company's business into the definition of strategies and remuneration policy, also on the basis of a relevant analysis of the factors that may affect the generation of value in the long term."

The Board of Directors, also with a view to gradually but steadily adapting the Bank's governance to best practices in the field of sustainability, shared the following initiatives:

- the integration of the **Regulation of the Board of Directors and/or the Regulation of Corporate Bodies, Control Functions and Information Flows**, in order to clearly explain, as far as necessary, the competence to consider the issue of sustainability as an integral and fundamental part in the definition of business strategies;
- the assignment to the **CR Committee** of investigative, consultative and propositional functions and, more generally, of support to the Board of Directors on issues related to sustainability and NFD, as of the date when its drafting becomes mandatory for the Company.

"Recommendation 2: the Committee recommends that the companies provide for adequate management of the information flows to the Board of Directors, including in the possible regulation of Board proceedings, ensuring that confidentiality requirements are protected without compromising the completeness, usability and timeliness of the information".

The Board of Directors has deemed the quality of the information provided to it to be satisfactory. This is confirmed by the results of the 2019 self-assessment process, from which it emerged that the pre-Board documentation is largely exhaustive, and that the timing of its

transmission is adequate, so that the obligation to provide pre-Board information has been satisfactorily fulfilled, in line with the provisions of the Supervisory Provisions and the Code of Conduct.

In view of the above, the Board of Directors has agreed to consolidate the current practice, without prejudice to the willingness to try to improve, in particular, the timing of making financial data available .

“Recommendation 3: The Committee calls on the administrative bodies to apply more rigorously the independence criteria set out in the Code, and on the supervisory bodies to monitor the correct application of these criteria. The Committee, in addition to reaffirming the exceptional nature and the necessary individual motivation - thus linked to the specific case of the individual director - of the derogation from any independence criteria recommended by the Code, invites issuers to pay greater attention to the assessment of the significance of the relationships being assessed. To this end, the Committee invites the Board of Directors to define ex ante the quantitative and/or qualitative criteria to be used for the assessment of the significance of the reports under review. These criteria should relate to the overall position, not limited to the purely economic benefit, of the director whose independence is being assessed, and find adequate and transparent disclosure to the market in the corporate governance report”.

The Board of Directors agrees, with a view to adapting to the recommendations, to supplement the **Regulations of the Board of Directors and/or the Nomination Committee**, in order to (i) make clear, as far as necessary, that any exceptions to the criteria indicated in the Code of Conduct must be duly justified, and (ii) specify, without prejudice to the importance of the economic relations between the Company and the interested party already defined in the Regulation of the Board of Directors, that the exceeding of the aforementioned nine-year limit, if it occurs during the financial year, does not in itself determine the loss of the independence requirement, without prejudice to the qualitative evaluations of the interested party's work.

“Recommendation 4: Also in the light of the comparative analysis, the Committee recommends that the management bodies - and the relevant remuneration committees - check that the amount of remuneration paid to non-executive directors and members of the control bodies is adequate for the competence, professionalism and commitment required by their office. A valid assumption could derive, for this purpose, from a reference to the

remuneration practices widespread in the reference sectors and for similar size, possibly also considering comparable foreign experiences.”

The Bank agrees with the above recommendation, and believes that the current remuneration of non-executive Directors and members of the Board of Statutory Auditors is appropriate for their skills, expertise and professionalism, as well as the commitment required by the position. Having said this, the Board of Directors agrees, with a view to adapting to the Recommendations, to supplement the **Remuneration Committee's Regulations**, in order to give it the task of drawing up, as the term of office of the Board of Directors expires - using sector benchmarks - compensation proposals that the Board of Directors could take into account (i) when drawing up the Guidance for Shareholders, with regard to the remuneration of statutory auditors and directors for the fixed fee pursuant to art. 2389, first paragraph, of the Italian Civil Code; (ii) when determining the remuneration for special assignments to non-executive directors pursuant to Article 2389, third paragraph, of the Italian Civil Code .

This approach will be reflected in the Remuneration Policy 2020.

The Decisions were followed up by a resolution of the Board of Directors on 25 February 2020.

TABLE 1: INFORMATION ON SHARE OWNERSHIP

SHARE CAPITAL STRUCTURE 31.12.2019				
	No. Shares	% compared to the share capital	Listed (indicate stock markets)/unlisted shares	Rights and obligations
Ordinary shares	170.553.778	100%	S/MTA	The partners have the right to one vote per ordinary share
Multiple-vote shares	–	–	–	–
Shares with limited voting rights	–	–	–	–
Shares with no voting rights	–	–	–	–
Other	–	–	–	–
OTHER FINANCIAL INSTRUMENTS (granting the right to subscribe for newly issued shares)				
	Listed (indicate stock markets)/unlisted shares	No. outstanding instruments	Category of shares to service the conversion/financial years	No. shares to service the conversion/financial years
Bonds	–	–	–	–
Warrants	–	–	–	–

SHARE CAPITAL STRUCTURE 25.02.2020				
	No. Shares	% compared to the share capital	Listed (indicate stock markets)/unlisted shares	Rights and obligations
Ordinary shares	170.602.717	100%	S/MTA	Ogni azione ordinaria attribuisce il diritto a 1 voto
Multiple-vote shares	–	–	–	–
Shares with limited voting rights	–	–	–	–
Shares with no voting rights	–	–	–	–
Other	–	–	–	–
OTHER FINANCIAL INSTRUMENTS (granting the right to subscribe for newly issued shares)				
	Listed (indicate stock markets)/unlisted shares	No. outstanding instruments	Category of shares to service the conversion/financial years	No. shares to service the conversion/financial years
Bonds	–	–	–	–
Warrants	–	–	–	–

TABLE 2: COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES

Board of Directors												Risk and Control Committee			Remuneration Committee		Nomination Committee		RPT Committee	
Office	Members	Years of birth	Date of first appointment *	In office from	In office until	List **	Exec.	Non-exec	Indep. Codice	Indep. CFA	No. Other offices ***	(*)	(*)	(**)	(*)	(**)	(*)	(**)	(*)	(**)
Chairman	Messina Salvatore	1946	14.01.2013	05.04.2018	2020 Financial Statements appr.	M		√		√	1 NOT EXEC.	19/19								
Deputy Chairman	Fornari Luswergh Federico (1)	1964	24.04.2010	05.04.2018	2020 Financial Statements	M			√	√	1 EXEC.	18/19	14/15	M			6/6	P		
Chief Executive Officer ◊	Belingheri Massimiliano	1974	19.12.2006	05.04.2018	2020 Financial Statements appr.	M	√				-	19/19								
Director	Aguilera Isabel	1960	05.04.2018	05.04.2018	2020 Financial Statements appr.	M			√	√	4 NOT EXEC.	19/19			10/10	M	5/6	M		
Director	Aumann Schindler Gabriele Michaela	1953	21.12.2015	05.04.2018	2020 Financial Statements appr.	M			√	√	-	19/19	15/15	P					5/5	M
Director	Langworthy Ben Carlton	1978	04.11.2015	05.04.2018	2020 Financial Statements appr.	M		√			3 NOT EXEC.	13/19					6/6	M		
Director	Paris Carlo	1956	05.04.2018	05.04.2018	2020 Financial Statements appr.	m			√	√	1 NOT EXEC.	18/19							5/5	P
Director	Poggioli Barbara	1963	05.04.2018	05.04.2018	2020 Financial Statements appr.	M			√	√	4 NOT EXEC.	16/19			10/10	P			5/5	M
Director	Rodigari Giorgia (2)	1983	11.12.2019 (3)	11.12.2019	2020 Financial Statements appr.	n.a.		√			2 NOT EXEC.	1/1	1/1	M	0/0	M				
-----DIRECTORS WHO RESIGNED DURING THE RELEVANT YEAR-----																				
Deputy Chairman	Shrozzini Luigi	1982	04.11.2015	05.04.2018	09.12.2019	M		√			1 NON EXEC.	17/17	12/14	M	09/10	M				
No. of meetings held during the relevant year:				BoD: 19				CR Committee: 15				Remuneration Committee: 10				Nomination Committee: 6				RPT Committee: 5
Indicate the quorum required for the submission of lists by minorities for the election of one or more members (pursuant to Article 147-ter CFA): 2,5%																				
NOTE:																				
The symbols below shall be entered in the "Office" column:																				
• This symbol indicates the director in charge of the internal control and risk management system.																				
◊ This symbol indicates the main person responsible for managing the issuer (Chief Executive Officer or CEO).																				
◌ This symbol indicates the Lead Independent Director (LID).																				
* The date of first appointment of each director means the date on which the director was appointed for the first time (ever) in the BoD of the issuer.																				
** This column shows the list from which each director was taken ("M": majority list, "m": minority list, "BoD": list presented by the Board)																				
*** This column indicates the number of offices as director or statutory auditor held by the relevant subject in other companies listed or regulated markets including foreign markets, in financial, banking, insurance or large-size companies. In this Report these offices are listed on detail																				
(*) This column indicates the participation of the directors in the meetings of the BoD and the committees respectively (indicate the number of meetings attended with respect to the total number of meetings that could have been attended, eg 6/8, 8/8 etc.).																				
(**) This column indicates the position of the director within the Committee: "C": chairman; "M": member.																				
(1) Director appointed Deputy Chairman on 11 December 2019. The Board of Directors considered that the fact that Mr. Fornari has exceeded the nine-year requirement does not mean that he is no longer independent for the purposes of the composition of the Committees.																				
(2) Director coopted by the Board of Directors on 11 December 2019.																				
(3) Director who briefly served as a member of the Bank's Board of Directors in 2015, later dismissed due to impediments.																				

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Board of Statutory Auditors									
<i>Office</i>	<i>Members</i>	<i>Year of birth</i>	<i>Date of first appointment *</i>	<i>In office from</i>	<i>In office until</i>	<i>List **</i>	<i>Indep. Codice</i>	<i>Attendance at the Board meetings ***</i>	<i>No. Other offices ****</i>
Chairman	Paola Carrara	1976	05.04.2018	05.04.2018	2020 Financial Statements appr.	m	√	32/32	n. 5 of control n. 4 management
Regular Auditor	Patrizia Paleologo Oriundi	1957	21.02.2007	05.04.2018	2020 Financial Statements appr.	M	√	29/32	n. 12 of control n. 1 management
Regular Auditor	Marco Lori ¹	1956	25.03.2015	05.04.2018	2020 Financial Statements appr.	M	√	30/32	n. 12 of control n. 3 management
Alternative Auditor	Di Giusto Fabrizio	1966	05.04.2018	05.04.2018	2020 Financial Statements appr.	m	√	N.A.	n. 4 of control
Alternative Auditor	De Marchi Giancarlo	1950	31.03.2016	05.04.2018	2020 Financial Statements appr.	M	√	N.A.	n. 4 of control
-----AUDITORS WHO RESIGNED DURING THE RELEVANT YEAR-----									
none									
No. of meetings held during the relevant year: 33									
Indicate the quorum required for the submission of lists by minorities for the election of one or more members (pursuant to Article 148 CFA): 2,5%									
NOTE									
* The date of first appointment of each auditor means the date on which the director was appointed for the first time (ever) in the Board of Statutory Auditors of the issuer.									
** This column shows the list from which each auditor was taken ("M": majority list, "m": minority list, "BoD": list presented by the Board).									
*** This column indicates the participation of the auditors in the meetings of the Board of Statutory Auditors and the committees respectively (indicate the number of meetings attended with respect to the total number of meetings that could have been attended, eg 6/8, 8/8 etc.).									
****This column indicates the number of offices as director or statutory auditor held by the interested party pursuant to Article 148-bis TUF and the related implementations contained in the Consob Issuers' Regulations. The complete list of offices is published by Consob on its website pursuant to Article 144-quinquiesdecies of the Consob Issuers' Regulations.									
¹ He was Chairman of the Statutory Auditor from April 7, 2017 to April 4, 2018									

TABLE 4: - OPERATIONAL POWERS TO THE CHIEF EXECUTIVE OFFICER**GENERAL OPERATIONAL POWERS**

When exercising such powers, the Chief Executive Officer:

1. implements corporate policy guidelines and resolutions of the superordinate bodies overseeing the performance of the Company for the purposes of achieving the corporate goals;
2. implements the resolutions of the Board of Directors regarding risk organization, control and management;
3. formulates proposals to the Board of Directors relating, inter alia:
 - i) on the guidelines of the annual *budget* and the multi-year plans
 - ii) propose projects to develop the Company's activities including the diversification of products, customers and/or services;
4. submits the annual *budget* and multi-year plans to the Board of Directors;
5. proposes acquisition and extraordinary finance operations for the purpose of achieving the corporate goal;
6. provides everything necessary to fulfill legal and regulatory obligations including, but not limited to those relating to *privacy*, supervision, occupational health and safety, anti-money laundering, general notifications to shareholders and the market;
7. as an Employer under Legislative Decree No. 81/2018, as subsequently amended and supplemented, provides, with no spending caps, expenses related to the protection of health and safety of workers, including any unexpected expenses that shall be communicated to the Board of Directors in a timely and substantiated manner;
8. issues, for and on behalf of the Company, sureties and, more generally, bank guarantees, whether governed by Italian law or by foreign laws, in the interest of third parties
9. performs every necessary and appropriate act for the ordinary management of the Company within the limits set out below “**Specific ordinary operational powers**”.

FINANCIAL POWERS

When exercising such powers, the Chief Executive Officer:

10. negotiates, concludes, reviews and implements contracts for opening credit and financing of any kind and duration in favor of the company, including through the issuance of

commercial paper, of **no more than Euro 200 million per transaction**, it being understood that this limitation does not apply to the exercise of all the faculties pertaining to society resulting from the conclusion of the above contracts, including the right to declare the resolution or withdrawal.

The detection limit of Euro 200 million does not apply to transactions with the ECB and the national central banks of the Eurosystem.

11. negotiates, concludes, reviews and implements the framework contracts or individual concerning transactions of *currency swaps, domestic currency swaps, interest rate swaps, currency options, bond options, future rate agreements, foreign exchange netting agreement caps, floors, collars* and any other financial transaction directly comparable in structure and purpose to those above, **within a maximum capital amount of Euro 200 million per transaction**, it being understood that exceeding this limit shall be authorized by the Board of Directors. Remains also understood that this limitation does not apply to the exercise of all the faculties pertaining to society resulting from the conclusion of above contracts, including the right to declare the resolution, cancellation, termination or make supplies in any form allowed;
12. negotiate, conclude, modify, resolve and carry out open credit and financing agreements under any type, duration and currency also through the subscription of bonds, or other debt securities, as well as the issue of commercial paper according to terms and conditions applicable from time to time, issued by subsidiaries, both directly and indirectly;
13. purchase and hold Government Securities on behalf of the Company;
14. grant credit to financial institutions for interbank deposits;
15. open and close banking accounts of any kind and type with banks and other financial institutions, by negotiating active and passive interest rates, collect sums from the accounts held in the name of the Company, for this purpose by issuing the relative checks or equivalent, and arrange transfers based on actual availability whether against current account credit lines;
16. open and close banking accounts and/or deposit accounts with Company's customers defining active and passive interest rates, conditions and how relevant is for this activity;
17. make payments to the banking and postal accounts and run for credit checks and money orders on these accounts;

18. stand out among the customers, also run for a promissory notes discount, bills, drafts and checks of any kind, and perform any other operation resulting in or related;
19. negotiate, undersign, lend, and perform, also abroad, in the name and on behalf of the Company, sureties, *comfort letters*, letters of *patronage*, compensation, indemnity, counterguarantee, securities and, more generally, any other warranty, whether they are ruled by Italian or foreign laws in favor of third parties, Italian or foreign, in relation to which the Group companies have the quality of guaranteed obligor; and within and for the purposes inherent to the ordinary activities of the companies of the Group, performing any other deed that, in its opinion, should be necessary or appropriate as a result of the release of the warranties referred to this point; all of this within the maximum limit, including the amount of loans disbursed, of Euro 200 million

SPECIFIC OPERATIONAL POWERS FOR THE *FACTORING* ACTIVITY

When exercising such powers, the Chief Executive Officer:

20. negotiate, sign, and perform contracts for credit management and for the purchase of receivables *without* and *with recourse*, by agreeing all the terms and conditions, including the determination of the amount due;
21. grant, modify and revoke *factoring* transactions and sign all related deeds, **up to the amount of Euro 200 million for each transferor**, together with other cumulated related risks; he may also resolve additional extraordinary and temporary grants (up to a maximum of 3 months) equal to 20% of the amount defined for the single transferor, **up to a maximum of an additional to Euro 40 million**. He may also negotiate and stipulate, or deliberate, cancellations, postings, subrogations, reductions and refunds of real and personal guarantees of any kind acquired in relation to the risks resolved within the above mentioned limits, even when the company's credit has not yet been extinguished;
22. negotiate, sign, and perform contracts for assignment of receivables *without* and *with recourse*, and stipulate all the terms and conditions, including the determination of the amount due, **up to Euro 200 million per individual transaction**;
23. sign all the deeds, including amendments, and contracts regarding customer relations;
24. negotiate and sign transaction documents and related and consequential acts against debtors, defining, inter alia, clauses for the waiver of interests and other charges, including legal fees; also settle disputes and sign the renunciation acts and related actions

against debtors, and signs papers and documents relating to the proceedings, all this provided that the full capital payment is established:

SPECIFIC ORDINARY OPERATIONAL POWERS

When exercising such powers, the Chief Executive Officer:

25. assume and grant properties under lease and sublease and stipulate, modify and resolve the relative contracts, **provided that the annual fee does not exceed Euro 300 thousand**;
26. handle all the Company's current expenses; negotiate, stipulate, modify, perform, and resolve the relative contracts, in particular, including but not limited to:
 - a. works and supplies required for the transformation and maintenance of buildings and plants;
 - b. purchases and disposals of furniture, equipment, machinery and movable goods in general, including those registered in public registers, as well as financial leases and rentals of the assets, with a limit on the cost of the annual fee;
 - c. purchases, also under license, information programs and IT services in *outsourcing*, with a spending limit related to the annual fee;
 - d. insurance policies with a spending limit referring to the annual premium;
 - e. commercial information;
 - f. professional consultancy contracts and services related to the ordinary management of the Company;
27. propose to the Board of Directors the allocation of funds to the budget, reporting on the uses of the fund itself;
28. authorize writedowns, adjustments and loss of credit **up to a limit of €300 thousand** for each debtor and/or transferor and per individual transaction;
29. propose to the Board of Directors the recruitment, promotion, disciplinary sanctions, dismissal and any other measures against *Senior Executives* and *Executives* that directly report to the Chief Executive Officer, subject to the limitations set by supervisory provisions;
30. decide the recruitment, promotion, disciplinary sanctions, dismissal and any other provision towards the *Executives*, which are not directly reporting to the CEO himself, the 3rd and 4th level Managers, and fix the relative economic treatment, within the limits

set by the Board of Directors, subject to the limitations set by the supervisory provisions in force from time to time;

31. decide the recruitment, promotion, disciplinary sanctions, dismissal and any other measures against the 1st and 2nd level Managers, belonging to the 1st, 2nd, 3rd Professional Area, and fix the relative economic treatment, within the limits established by the Board of Directors, subject to the limitations set by the supervisory provisions.