



GRUPPO BANCARIO

BANCA  
FARMAFACTURING

2014 CONSOLIDATED  
ANNUAL REPORT

**Banking Group Banca Farmafactoring S.p.A.**  
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REPORT ON OPERATIONS  
CONSOLIDATED FINANCIAL STATEMENTS 2014

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## Board of Directors

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Federico Fornari Luswergh
Directors	Giancarlo Aliberti Gabriele Cipparrone Daniele Ferrero Gaudiana Giusti Elisabetta Oliveri Marco Rabuffi

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## Board of Statutory Auditors

Chairman	Francesco Tabone
Acting Auditors	Luca Simone Fontanesi Marcello Priori
Alternate Auditors	Giovanni Maria Conti Patrizia Paleologo Oriundi

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## Independent Auditors

PricewaterhouseCoopers S.p.A.

# 01

## REPORT ON OPERATIONS



## General Economic Overview

Dear Shareholders,

In the introduction to this report, we feel it is appropriate to express some considerations about the general global economic picture and about the situation in our own country.

## The International Economic Scenario

In 2014 the global economy showed very weak signs of growth, with an increase in GDP of 3.3% compared to the prior year. The strengthening of international trade reported in the third quarter attenuated in the fourth, as the result of a renewed weakness in demand in the Eurozone and in Asia. Prospects of global growth are threatened by the risk of a further slowdown of the Chinese economy and a deterioration of the economic and financial situation in Russia.

Economic activity accelerated in the United States, especially in the last quarter of 2014, leading to an annual increase of 5%, generated by a rise in consumption, and GDP expanded at an annual rate of 2.2%. In Japan, however, the decline of GDP continued unexpectedly even in the third quarter, due to another contraction in investments, which was only partially compensated by a modest improvement in consumption.

The slowdown of economic activity reported in China in the third quarter continued in the final part of the year, while growth remained robust in India. Stagnation persists in Brazil, where GDP is hampered by weak investments. The economic and financial situation in Russia is deteriorating rapidly, as a result of the sanctions imposed by the West at the end of July and the fall in the price of oil.

Economic growth in the Eurozone was also modest, with a positive change in GDP of 0.8% compared to 2013. In the third quarter of 2014, GDP grew by 0.2% percent, sustained by a rise in consumption. Demand was held back by another contraction in investments, while foreign demand made a virtually zero contribution to growth. Among the largest economies, GDP began to increase again in France (0.3%) and Germany (0.1%), whereas it fell in Italy (-0.1%). The decline in loans to companies continued, although to a lesser degree than in the previous months, whereas there was a slight rise in the levels of lending to households.

In the fourth quarter, inflation fell almost everywhere, partly as a result of the contraction in the prices of raw materials. In the United States, it dropped to 1.3% from 1.5% in 2013, whereas, in the Eurozone, it settled at 0.7% compared to 1.3% in the prior year. According to the OECD's latest estimates, in 2015, inflation rates in the United States and the Eurozone are expected to be around 1.7% and 1.1% respectively.

The United States and the United Kingdom began to retreat from their expansive monetary policies: the Federal Reserve interrupted its plan to purchase mortgage-backed securities and treasury bills, keeping interest rates at 0.25%. The Bank of England confirmed the level of interest rates at 0.5% and left the quantity of financial assets in its portfolio unchanged. Japan confirmed interest rates at 0.1% but, in October, unexpectedly decided to strengthen its quantitative expan-

sion program. In the Eurozone, too, monetary policies remained expansive, with the purchase, on the part of the central banks, of securities backed by corporate and household bank loans as part of securitization transactions. The overall demand for liquidity from the Eurozone banking system was equal to slightly more than half of the maximum amount available for disbursement. This was a reflection of the weakness of the European economy, which had a negative influence on the demand for credit. In 2014, in effective nominal terms, the Euro weakened and fell significantly against the U.S. dollar, with the rate equal to 1.2141, 7.2% lower than at the end of 2013, when it was equal to 1.3791.

With regard to the future outlook, the prospects of a gradual increase in growth are still threatened by risks of a downturn. The OECD has corrected its forecasts of world growth downward: 3.7% in 2015, with slight acceleration compared to last year. Cyclical global conditions are likely to be different depending on the area: growth should remain stable in the United States, in the United Kingdom and in India, and should strengthen slowly in Japan and Brazil, while the structural slow-down in China is expected to continue. In the Eurozone, the staff of the Eurosystem has revised their forecasts of growth downward, in 2015, to approximately 1.0%.

## The Italian Economy in 2014 and Forecasts for 2015 Comments on the Spanish Economy

In Italy, according to figures available so far, in 2014, GDP contracted by 0.4% compared to 2013, industrial production fell by almost one percentage point, investments continued to be weak and a slight improvement was recorded in household consumption that began in the summer of 2013.

In the third quarter, exports decelerated on account of the stagnation in demand from other countries in the Eurozone. The improvement in the current account balance continued and the purchase of Italian stocks and foreign debt increased. Imports began to decrease again in the third quarter.

In the last quarter of 2014, the number of people employed increased slightly as did the total number of hours worked; despite this, unemployment increased to 12.8%. Contributory factors to the increase in the participation rate were especially the older age groups of the population as a result of the new requirements for qualifying for pensions.

Qualitative surveys conducted by ISTAT do not point to a clear improvement in company expectations on three-month employment figures, consistently with the basic stationarity, of the job vacancy rate.

In 2014, the inflation rate remained extremely low, and became negative again in December, with a decrease of 0.1% compared to the prior year. The risk of a prolonged period of deflation remains high, aggravated by the intensification of the fall in oil prices.

An analysis of the credit market shows a continuation of the contraction of loans, albeit at a slightly more moderate pace since it is affected, from the perspective of demand, by weak investments and, from the perspective of supply, by the persisting level of risky borrowers. During the third quarter of the year, the conditions of credit supply were still unchanged compared to the prior year, both for companies and households. However, intermediaries are supposed to have slightly



relaxed the criteria for granting loans to companies, with more favorable conditions for large companies and slightly less favorable ones for smaller companies.

According to consolidated quarterly financial reports, during the first nine months of 2014 the profitability of the five leading banking groups, although remaining low, increased over the same period of the prior year. The return on capital and reserves, expressed on an annual basis, was 2.1% up from 1.5%. This improvement can be attributed mainly to the contraction in loan writedowns and higher income from fees and commissions. At the end of September, the capital ratios of the top five groups were at the same levels as in June: the Common Equity Tier 1 Ratio, the Tier 1 Capital Ratio and the Total Capital Ratio were equal to 12.0%, 12.5% and 16.1% respectively.

The downgrade in the rating of Italian debt by Standard & Poor's (from BBB to BBB-), motivated chiefly by the uncertain prospects with regard to the country's growth, as well as the risks that inflation might decrease further, had no repercussions on the yields of government bonds. The spread between ten-year government bonds and their corresponding German counterpart, the Bund, remained stationary at 139 points, compared to 180 at the end of 2013.

Despite the persisting recession, the net deficit of the Public Administration remained at approximately 3% of GDP, up from the 2.8% reported at year-end 2014. The deterioration can be attributed to the contraction of receipts, due to a fall in income taxes, especially IRES corporate tax. From the point of view of spending, the reduction in interest payments entirely compensated the moderate increase in current primary spending. In official forecasts, which take into account the adjustments of the 2015 Stability Law approved last December, during the current year, net debt should shrink from 3.0% to 2.6% of GDP, decreasing further to 1.8% in 2016 and 0.8% in 2017.

Forecasts for the two-year period 2015-2016 conjure up a picture of a gradual return to growth in the current year and more robust expansion in 2016. Economic activity should be sustained by expansive monetary policies and by measures put in place by the Stability Law, which will reduce the tax wedge. Furthermore, other benefits may result from the acceleration of international trade, the depreciation of the exchange rate and the fall in the price of oil. However, even so, recovery is likely to be hampered by a continuing trend of weak investments and would display elements of fragility due to ongoing conditions of uncertainty and lack of confidence.

Leading forecasting agencies estimate GDP growth at 0.4% for this year and of 1.2% for next year. The recovery of economic activity could prove to be even more accentuated if the price of oil remains at the levels observed recently, and in the case of greater elasticity in foreign demand compared to global GDP. In that case, it is thought that the impact on GDP could reach half a percentage point in the two-year period 2015-2016. The effect might be more limited if greater optimism about the prospects in demand lead to a more rapid return to confidence on the part of companies and households, leading, in turn, to a greater improvement in investments and consumption.

In Spain, in 2014, GDP recorded an increase of 1.4%. However, it's important to point out that a greater recovery was reported in the last quarter, influenced by stronger domestic demand and an increase in exports.

In December 2014, in Spain, inflation on an annual basis decreased 1%, compared to an increase of 0.25% in the prior year. The unemployment rate at the end of December 2014 was 23.7% and continues to be the highest in Europe, with the exception of Greece.

## The National Health System in Italy in 2014 and Forecasts for 2015 Comments on the National Health System in Spain

During the 16<sup>th</sup> and 17<sup>th</sup> term of Parliament, numerous measures were passed which aimed to reduce and rationalize health care expenditures. The most important measures were contained in Legislative Decree 78/2010 and in the Stability Law 2011, and reiterated in Legislative Decrees 98/2011, 95/2012, 228/2012 and Law 147/2013.

Legislative Decree 78/2010, amended and converted into Law 122/2010, introduced certain modifications, both in terms of the budget of the resources for the National Health Service, and repayment plans.

Legislative Decree 98/2011 established levels of funding for the National Health Service for the two-year period 2013-2014 and, finally, Legislative Decree 95/2012, on the so-called spending review, established reductions in expenditures for 2013 and 2014. Both of the decrees mentioned introduced new measures to cut health care expenditures, leading to corresponding reductions in ordinary state funding, of an amount equal to the estimated effects of the spending cuts.

In 2014, funding for the National Health Service amounted to €109.9 billion. According to the first available estimates, health care expenditures in 2014 would put the amount at approximately €111.5 billion, compared to more than €109 billion in 2013.

Therefore, the health care deficit for 2014, taking into account only funding provided by the State, would be approximately €1.5 billion.

In its implementation of the Health Agreement for 2014-2016, Law 190 of December 23, 2014 (the so-called "Stability Law 2015") set funding for the National Health Service at €112.1 billion for the year 2015 and €115.4 billion for 2016. The text of the law assumes savings of €4 billion per year from a contribution to the state treasury; as a result, the Regions seem intent on rejecting the increase of €2 billion mentioned in the funding plan for the National Health Service in 2015. Health care expenditures of €113.7 billion are forecast for 2015 (2014 Document of Economics and Finance, approved by the government on April 8, 2014).

Furthermore, the Stability Law 2015 introduced a 'split payment' mechanism (Art. 17 ter of D.P.R. 633/1972) on the basis of which, from January 1, 2015, it will be the public entities, and no longer the suppliers, which will pay VAT on certain sales of goods and on services rendered to those entities. In this way, the payment of invoices will be split between the tax office, with regard to VAT, and the supplier, for the taxable amount, thus resulting in a split payment.

The manner and terms by which the application of the split payment mechanism is to be achieved have been laid down in a special decree issued by the Ministry of the Economy and Finance. Moreover, the decree states that the split payment mechanism will be applied on transactions invoiced from January 1, 2015 onwards, as a result of which the payment of the tax will be after that date. Since this sphere is regulated by Community legislation, the law that introduces the split payment mechanism will have to be approved by the European Union by June 2015.

During the period 2013-2014, various new legislation was issued to tackle the problem of the amounts payable by the Public Administration: Legislative Decree 35 in 2013, converted with amendments into Law 64/2013, budgeted €27 billion; Legislative Decree 102, of August 31, 2013, increased the payments scheduled for 2013 by €7.2 billion without reducing those relating to 2014; the Stability Law 2014 set aside another €0.5 billion for the year 2014; with Legislative Decree



66/2014, the government budgeted another €9.3 billion and made it possible to provide the State guarantee using receivables from the Public Administration as collateral.

On October 30, 2014, the payables of the Public Administration paid to creditors amounted to approximately €32.5 billion, of which €11.3 billion for payables related to health care. The overall distribution of funding amounted to approximately €40 billion.

Even after the new “federal health care” regulations were announced, the main tool ensuring that economic balance will be restored to the sector is that, from now on, Regions reporting significant deficits will be obliged to adopt repayment plans.

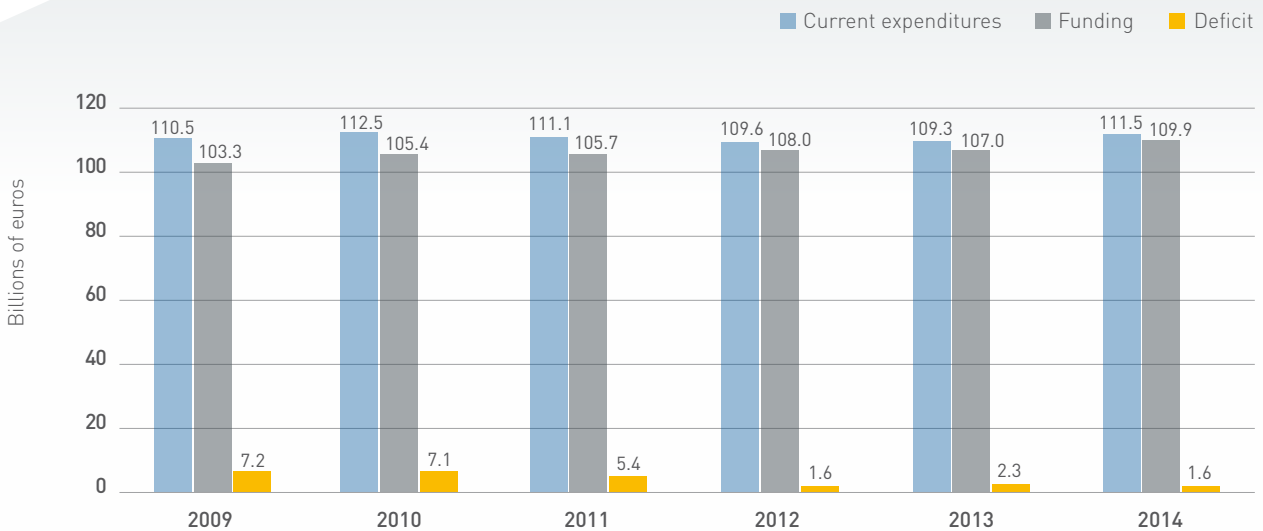
With the repayment plan system, Regions are obliged to activate regional fiscal levers to the maximum permitted by current legislation to raise further resources to cover deficits arising from health care management.

Currently, the following Regions implementing this procedure are Piedmont, Apulia and Sicily, now joined by Lazio, Abruzzo, Molise, Campania and Calabria, Regions for which a Commissioner *ad acta* is required to decide how to proceed with the repayment plan.

Legislative Decree 158 of September 13, 2012, amended and converted into Law 189 of November 8, 2012, and successive laws on this matter, extended until December 31, 2013 the regime prohibiting the initiation or continuation of enforcement proceedings against the local health authorities and hospitals belonging to the Regions already committed to a repayment plan or under an external commissioner.

On July 12, 2013 the Constitutional Court declared the above law unconstitutional, in that it placed the public health authorities and hospitals in an unjustified position of privilege.

## National Health Fund (MEF data)



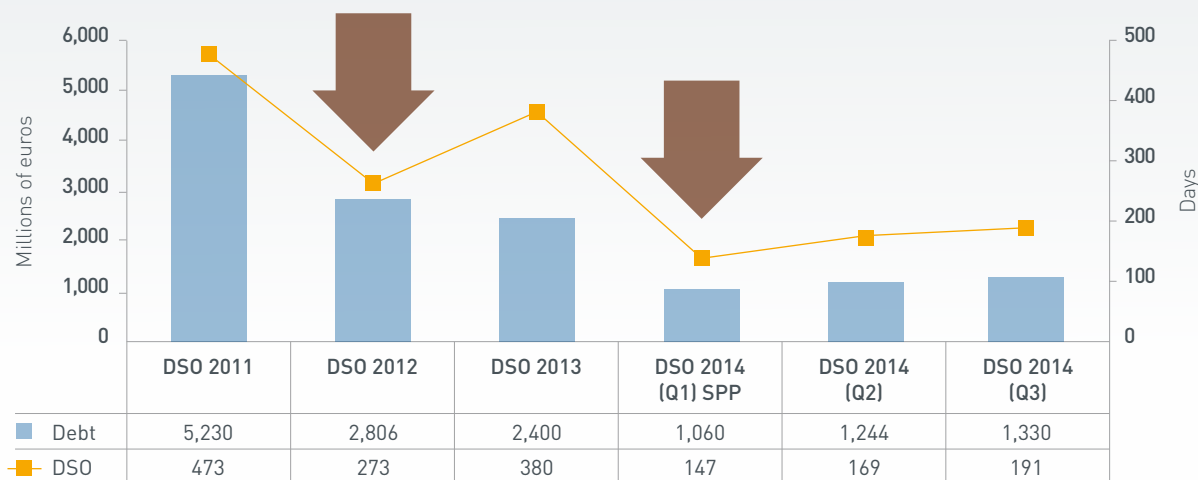
With regard to the health care system in Spain, on June 28, 2013 a new law was approved containing urgent measures to deal with late payments on the part of the Public Administration and in favor of cities in serious financial difficulties.

In 2012 the national debt decreased thanks to the Special Payment Plan drawn up by the Government, but the effect of the plan (€17.7 billion for the Regions and €9.6 billion for local authorities) was not enough to solve the late payments by the various entities of the Public Administration. Consequently, in order to resolve the situation, Royal Decree 8/2013 which aimed to prevent late payment by the entities of the Public Administration, developed three lines of action (digital invoices, management control and a Special Payment Plan) to solve the situation, allocating €8 billion to the Autonomous Communities with which to pay the public debt, most of which was destined for the health care sector. This amount was paid in February 2014 (as you can see in the graph below), thus reducing the Days' Sales Outstanding (DSO) of the previous year. Despite this, the main structural problems associated with health care funding resulted in an increase in DSO during 2014.

The central government is supporting regional governments by making special payments through the Liquidity Fund for Autonomous Authorities (FLA), but without defining the timescales involved. This uncertainty ensures a sustainable business scenario for us and helps to create a safety zone by maintaining DSO at around 200 days.

DSO and the debt trend of biomedical equipment suppliers (excluding drug suppliers) is represented as follows:

## DSO / Debt trend



Source: Fenin

A similar financial scenario is envisaged for 2015: the liquidity measures already put in place by the central government in favor of the autonomous regions will be repeated and, consequently, the DSO is expected to develop in a manner similar to 2014.

## Developments in the Banking Group

Unfavorable economic growth patterns in the Italian, European and international economies since 2011 have continued to hold sway in 2014.

In 2014 the Banking Group which, besides the parent, Banca Farmafactoring, comprises Farmafactoring España S.A. (FFE – a wholly-owned subsidiary of Banca Farmafactoring) and three special purpose entities, FF Finance S.r.l, Farmafactoring SPV I S.r.l. and Farmafactoring SPV II S.r.l., continued to develop its business model while keeping a focus on the management and sale of receivables due from the National Health Service and entities of the Public Administration.

In particular, the Banking Group, partly in response to the needs expressed by multinational pharmaceutical and biomedical corporations that are already clients in Italy and Spain, and interested in the sale of receivables due from the National Health Service in Portugal, has studied the possibility of replicating the Italian and Spanish business model in that country.

On April 23, 2014, the Bank of Italy granted Banca Farmafactoring authorization to operate in Portugal under the freedom of provision of services principle, communicating this to the appropriate Portuguese regulatory authorities.

Funding activities were diversified by expanding the sources of financing, with the use of instruments such as online deposit accounts aimed at retail and company customers guaranteed by Fondo Interbancario di Tutela dei Depositi, and the issue of three-year bonds privately placed with institutional investors for a total face value of €300 million, both instruments which made it possible to reduce the cost of funding.

In order to participate directly in the TARGET 2 cross-border interbank payment system and directly provide collateral to the European Central Bank (ECB), in July Banca Farmafactoring completed the transfer from Istituto Centrale delle Banche Popolari Italiane (ICBPI)'s clearing system to direct participation in TARGET 2, with the simultaneous opening of a Real Time Gross Settlement (RTGS) account with the ECB.

By direct participation in TARGET 2 and the simultaneous opening of a Pooling Account for the management of the collateral, Banca Farmafactoring has established its use for open market operations (OMO) at ECB auctions as the instrument for refinancing its securities portfolio, alongside repurchase agreements (repos) with Cassa di Compensazione e Garanzia, and with market counterparties, in addition to having the possibility of putting up collateralizable assets to ECB through the ABACO platform.

Until last year the Bank completely wrote off the receivables for interest on late payments invoiced, and did not record the interest on late payments that accrued but was not yet invoiced to the debtor. The right to interest on late payments is acquired at the same time as the purchase of the non-recourse receivables. When the actual interest on late payments was collected, this write-off was reversed and the interest on late payments was credited to the income statement.

During 2014, the Bank acquired analysis instruments which enabled it to obtain a time series of data such as to permit the calculation of a reliable estimate of the probable amount of interest on late payments that will be collected and the estimated collection times. As a consequence, the Bank changed the estimation criterion and applied, beginning in 2014, the percentage of recoverability to receivables for interest on late payments calculated as a result of the above time series analysis, equal, prudently, to 40% of their nominal amount at the estimated date of collection (conservatively fixed at 1800 days).

With regard to the receivables purchased by Farmafactoring España, the average percentage recovery of interest on late payments tends to be equal to 100% and is collected in less time on average than receivables from the Italian Health Service. Nevertheless, since the sample size observed is limited, it was prudently decided to positively consider the utilization of the same recovery rate of 40% and the same collection time of 1800 days as used by Banca Farmafactoring.

The change in the method of estimating the provision for interest on late payments led to the recognition in 2014 of the effects of such change, both on the receivables recognized in 2014 and on the receivables recorded in past years. This resulted in the recognition of very significant non-recurring income in the income statement. In future years, the income statement will only include the recognition of interest on late payments on an accrual basis for the individual years of reference and any differences between estimates and actual collection.

The Banking Group's total exposure to its business risks at December 31, 2014 is considered adequate in relation to the level of capitalization and the identified risk profile.

The capital ratios are 27.5% for both the Tier I Capital Ratio and the Total Capital Ratio.

In 2014 the subsidiary Farmafactoring España S.A. further increased its business and purchased non-recourse receivables for €316 million compared to €57 million in 2013, reporting a profit of €2,175 thousand.

A description is presented below of the trend of the main business indicators relating to the Group's activities and the key balance sheet and income statement figures.

## Performance by the Banca Farmafactoring Group in 2014

Overall volumes reported by the Banking Group totaled €5,450 million in 2014, an increase compared to €4,536 million recorded in 2013, whereas total collections amounted to €5,191 million against €5,138 million in the prior year.

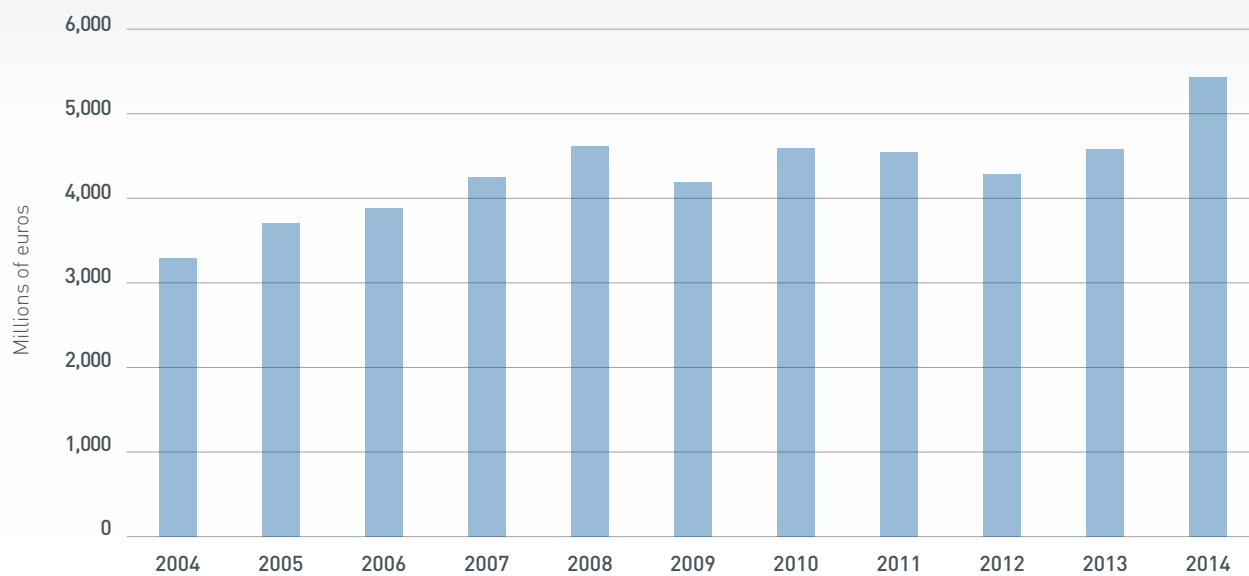
To counteract the tough macroeconomic climate and a more complicated competitive scenario, the Group continued to develop commercial policies designed to strengthen its relationships with existing customers and to acquire new clientele both in the Bank's traditional sector of business and in relation to other counterparties of the Public Administration.

The purchase of non-recourse receivables totaled €2,502 million, with an increase compared to €1,774 million in 2013 thanks to the acquisition of new clientele and the contribution to business made by Farmafactoring España, which made purchases for €311 million. In particular, €336 million was purchased from other counterparties of the Public Administration compared to €36 million in 2013, and about €29 million refers to purchases of non-recourse receivables in Portugal under the freedom of provision of services principle.

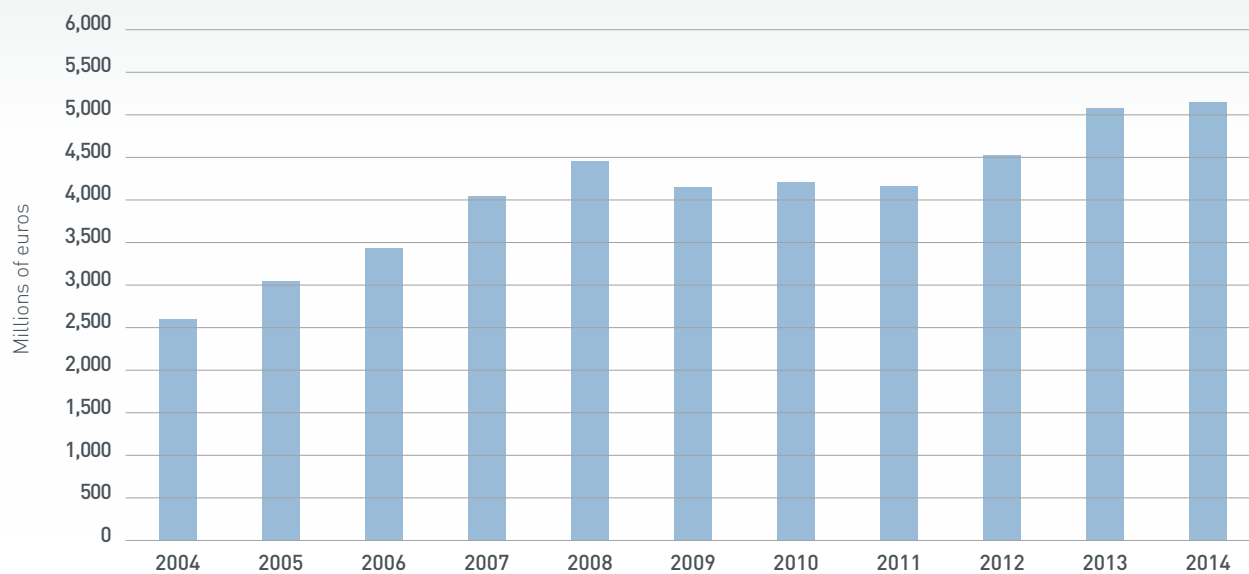
The following graphs represent total volumes and collections of the Group.

The data up to and including 2010 refer to Farmafactoring since Farmafactoring España only made its first purchases of non-recourse receivables in 2011.

## Total Volumes

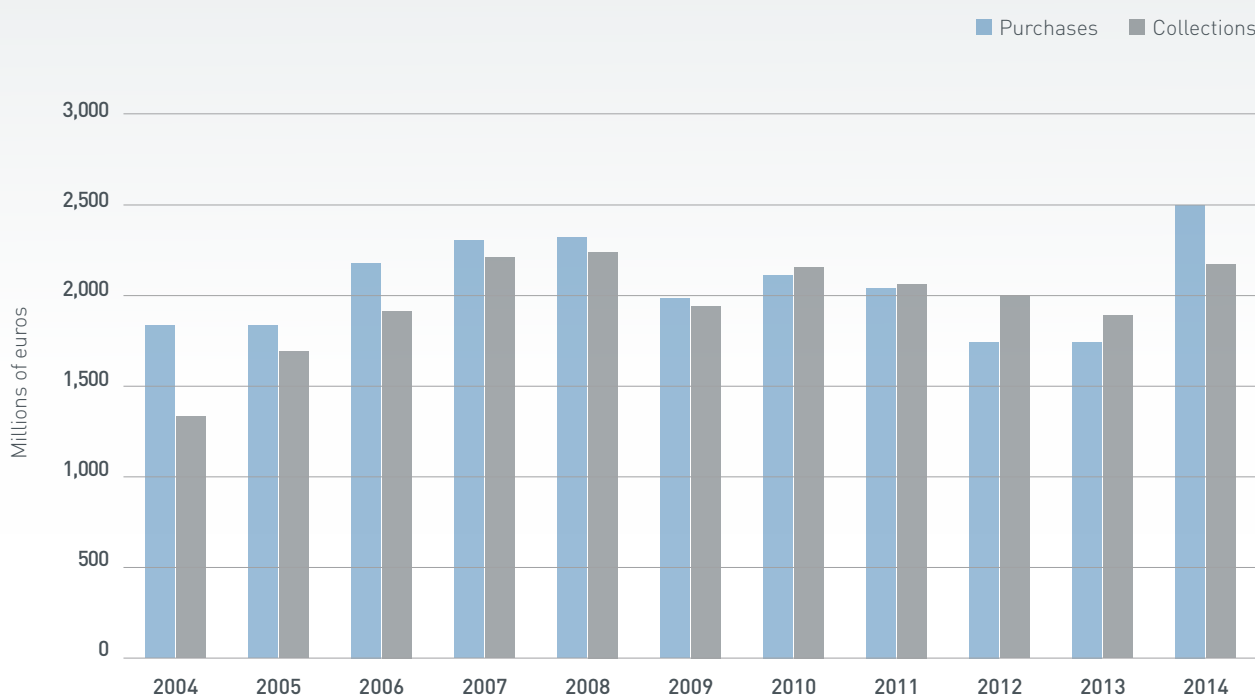


## Total Collections



Collections on non-recourse receivables amounted to €2,167 million.

### Non-recourse receivables - Purchases and Collections

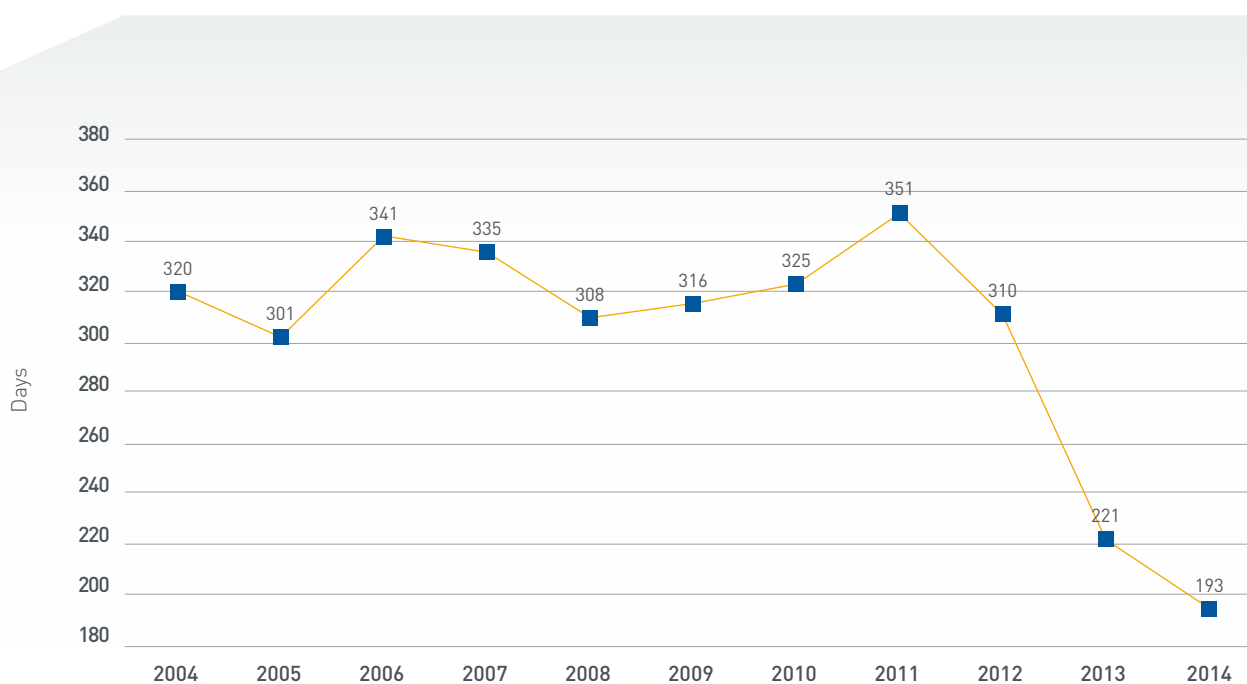


In 2014 the average days' sales outstanding for Italy was 193 compared to 221 days in 2013. The data for 2014 also takes into account the increase in volumes relative to the purchases from other counterparties of the Public Administration.

The reduction in the DSO compared to the prior year is principally attributable to the good trend in payments on the part of the entities, partly in connection with the positive effects arising from Legislative Decree 66/2014 as a result of which the government set aside another €9.3 billion, and made it possible to provide the State guarantee on receivables due from the Public Administration.

Other factors influencing the reduction in the number of days' sales outstanding are the favorable outcome of legal actions, resolutions by the Commissioners *ad acta* and above all by the settlement agreements with individual debtors (particularly, the Piedmont and Veneto Regions) and payments received from the Lazio Region.

Average Days' Sales Outstanding (DSO) in Italy



The banking system and the financial market crisis, together with other factors, led to a recession scenario in the markets in which the Group operates, namely Italy, Spain and Portugal, as well as in other countries of the European Union and in the United States of America.

In Europe, notwithstanding the measures adopted by the various governments and monetary authorities to provide financial assistance to the countries in the Eurozone experiencing economic difficulties, concerns still exist over the amount of debt and deficit and the ability of those countries to meet future financial commitments. In fact, despite a slight recovery during 2014, political and economic events could still negatively affect market volatility and recovery prospects, aggravating even further the economic crisis.

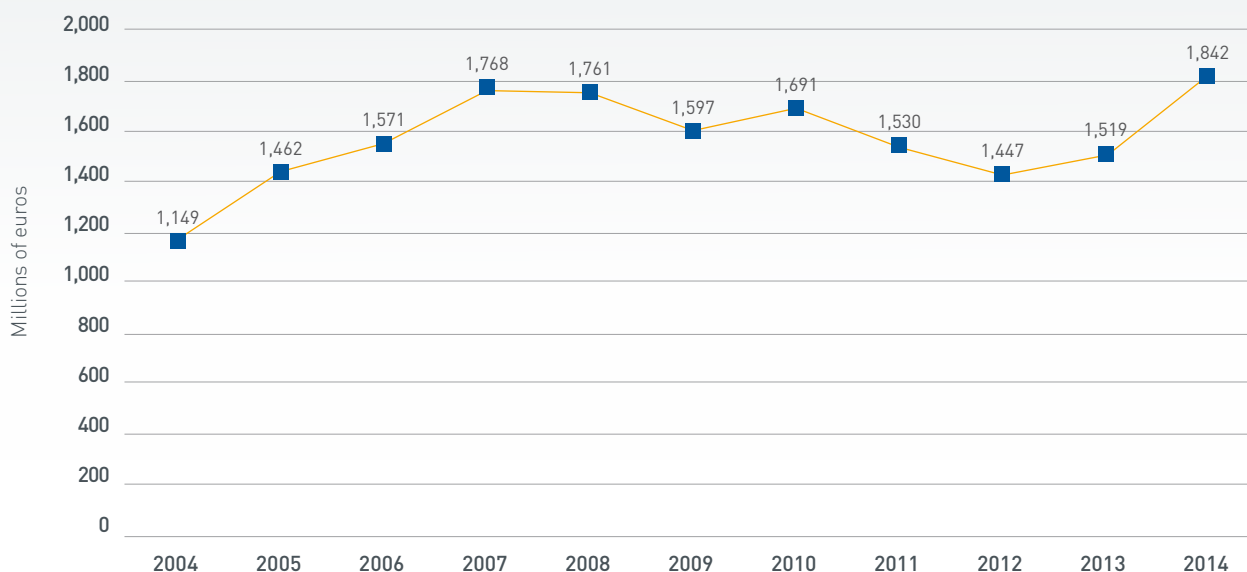
In this setting, the Bank has nevertheless managed to operate satisfactorily, thanks also to its solid capitalization and the stability of its financial resources.

At December 31, 2014 the financial resources deriving from wholesale bank funding and the issue of bonds in June 2014 amount to €1,842.5 thousand.

Taking into account approximately €226 million of funds from bank deposits, described later in the report, the total amount of funding for the purchase of non-recourse receivables is equal to approximately €2,068.5 thousand at December 31, 2014.



## Banking Group – Bank Credit Lines



The following transactions were concluded during the year with the aim of diversifying and improving the funding structure:

- renewal of the revolving phase, for another 18 months, of the transaction for the securitization of health care receivables of €150 million, structured by Deutsche Bank;
- structuring of a Club Deal loan arranged by Intesa San Paolo Group for a total €110 million;
- structuring of a pool loan organized by Unicredit Bank for a total €197.5 million;
- increment, up to €110 million, in the collaboration with Unicredit Group for the sale of receivables due by Banca Farmafactoring from debtors of the Public Administration through the sale of non-recourse receivables not notified;
- increment, up to €180 million, in the collaboration with Ifitalia for the sale of receivables due by Banca Farmafactoring from debtors of the Public Administration through the sale of with recourse receivables not notified;
- issue of bonds for €300 million, described below. This is the Bank's first issue on capital markets since the start of its business.

On September 25, 2014 repayment of the Senior Notes under the Farmafactoring SPV II securitization program, originally for an amount of €70 million, was completed.

On October 24, 2014 agreements were signed with SPV (issuer), the BayernLB Group (liquidity provider of the noteholder), Corelux Purchaser No. 1 S.A. (noteholder) and other counterparties of the transaction for the closing of the securitization program, sanctioning the cancellation of all

contracts relating to the transaction and the repurchase, on the part of Banca Farmafactoring, of the receivables portfolio still outstanding with SPV and the debit note issued and not yet collected.

At the end of the year the face value of securities in portfolio amounted to €1,296 million, of which:

- €368 million classified as Available-for-Sale (AFS)
- €928 million classified as Held-to-Maturity (HTM).

The securities held in the AFS portfolio are at variable rates (CCT) with maturity dates within two years, whereas those held in the HTM portfolio are at fixed rates (BOT, BTP and CTZ) with maturity dates related to the sources of committed and unsecured funding held by the Bank according to company policy.

In addition, with government securities used as collateral, during the year refinancing operations were put in place with the Eurosystem through participation in Open Market Operations with the ECB (currently full allotment until December 31, 2016), and with repos mainly with Cassa Compensazione e Garanzia through the MTS platform.

At December 31, 2014 the government securities portfolio was refinanced for a nominal value of €420 million through ECB auctions and €575 million with repos. The nominal value of securities available at December 31, 2014 is €300.5 million (of which €9 million in intraday credit with the central bank).

## Bond Issue

On June 12, 2014 Banca Farmafactoring successfully concluded its first Senior Unsecured bond issue.

The bonds (ISIN code XS1075173085) were privately placed with institutional investors for a total face value of €300 million. This is a three-year bond issue with a maturity date of June 12, 2017, unsecured and not rated.

The bonds are bearer bonds in denominations of €100 thousand and multiples of €1 thousand and bear annual fixed coupon interest of 2.750% payable annually in arrears. At the date of issue the bonds were listed on the Irish Stock Exchange and admitted for trading on the relative market.

Morgan Stanley acted as the sole underwriter and lead manager for the issue.

Banca Farmafactoring does not hold any financial instruments regarding the transaction.

## Deposit account

In September 2014 Banca Farmafactoring launched an online deposit account in Italy called Conto Facto aimed at retail and company clientele guaranteed by the Fondo Interbancario di Tutela dei Depositi of which the Bank is a member. The product was created with the strategic objective of diversifying the Group's funding operations and reducing its borrowing cost.

Conto Facto can be held by individuals and companies resident in Italy. Account holders may deposit their funds and choose the exact date between 3 and 36 months on which to withdraw their cash. The interest offered on the deposits varies according to the maturity date selected, as described in the Fact Sheets under Transparency on the Bank's website ([www.bancafarmafactoring.it](http://www.bancafarmafactoring.it)) and Conto Facto's website ([www.contofacto.it](http://www.contofacto.it)), as well as at the Bank's offices opened to the public.

The minimum amount for each time deposit is €15 thousand for a maximum balance per account of €3 million for individuals and micro companies and €10 million for larger companies.

At December 31, 2014, deposits totaled approximately €226 million with 3458 active accounts.

## Internal Control

Pursuant to the provisions dictated by the Regulatory Authority, the organizational framework of the Internal Control System of the Bank is based upon the following three levels of control.

### *First level controls*

The first level controls aim to ensure that transactions are correctly performed and carried out by the same operating structures that execute the transactions, with the support of computer procedures.

### *Second level controls*

With regard to second level controls aimed at the management of risks, compliance with norms and control over the risk of money laundering and terrorism financing, the board of directors of Banca Farmafactoring resolved to form the Risk Management, Compliance and Anti-Money Laundering Functions composed of:

- **Risk Management Function:** monitors the controls over the management of risks in order to define of the methodologies used to measure risk, verifies that the limits assigned to the various operating functions are being observed and checks that the operations of the individual productive areas are consistent with the assigned risk and return objectives;
- **Compliance Function:** responsible for controls over risks of non-conformity, aimed at verifying whether the activities of the bank and the relative processes are suitable for preventing the violation of norms;
- **Anti-Money Laundering (AML) Function:** oversees conformity in matters of anti-money laundering and anti-terrorism so as to prevent the use of the financial system for purposes of money laundering the profit from criminal activities, and the financing of terrorism.

### *Third level controls*

Under third level controls, the internal audit function ascertains that the system of internal control is adequate to meet the Group's objectives: it performs an assessment of the functioning of the overall system of internal controls, as well as an independent and objective assurance and consulting activity aimed at improving the effectiveness and efficiency of the Group itself, verifies the regularity of the operations and the trend of the risks by "in loco" inspections and suggests possible improvements in risk management policies, measurement tools and procedures to the board of directors and senior management.

In compliance with Bank of Italy regulations on the subject of internal controls, and in relation to internal regulations, as the organizational means of monitoring company processes, the Internal Audit function performed, for the year 2014, the testing activities established in the three-year 2013-2015 Audit Plan of the Banking Group, carrying out follow-up activities and reporting on the results of its testing on a quarterly basis to governance and control bodies of the Bank.

Specifically, with particular focus on the most important processes within a risk-based framework, planned controls were performed on the Bank's structures and on the subsidiary Farmafactoring España.

During the year certification was obtained for the Quality Management System in accordance with professional standard UNI EN ISO 9001:2008 relating to the audit process of the Bank.

### *Supervisory Body pursuant to Legislative Decree 231/2001*

An Organizational, Management and Control Model was designed by the Bank pursuant to Legislative Decree 231/2001. The model consists of a General Part and Specific Parts, with a Supervisory Body that periodically monitors the model's adequacy through planned testing activities.

The activities performed by the Supervisory Body in 2014 were principally directed to the assessment of the adequacy of the 231 Organizational Model, the control over information flows, anti-money laundering and workplace safety issues, careful examination of reporting by the internal audit function and all other control functions.

The Bank has reviewed and updated the entire Organization Model, also with the new guidelines of the trade professional organizations.

## Systems Development

In 2014 investments were made in Information & Communication Technologies for software applications, hardware and basic software to ensure the availability, continuity, performance and security of the systems (see Bank of Italy Circular 263, 15<sup>th</sup> update, chapters 8 and 9 regarding systems and operating continuity, Legislative Decree 196 of June 30, 2003, as amended, and the international standards ISO/IEC 27001:2005 - ISO/IEC 27002:2007).

In particular, the following main projects were implemented:

- activation of new physical and logical system servers and new systems for communication and safety of the production sites, and disaster recovery;
- completion of the private network of data transmission between the main branches of the Bank using MPLS technology;
- activation of CSE software systems for anti-money laundering and the Revenue Agency, with migration of the archives from the previous systems;
- activation of the deposit account front end software system and the CSE software systems for their management with all the integrations necessary;
- realization of the Bank's new website in conjunction with the launch of the deposit account;
- completion of new software for the factoring system relating to:
  - definition of amortized cost with the inclusion of interest on late payments on the accrual basis, as a result of the change in estimate for the recoverability of interest on late payments;
  - new legal system;
  - new pricing system;
- new software systems put into place for management of the treasury, finance and collateralized bank assets;
- start-up of the new software system for general ledger accounting, cost accounting and purchases for Farmafactoring España;
- completion of the plan updating systems and operating continuity in accordance with the new Bank of Italy (Circular 263, 15<sup>th</sup> update);
- update to meet the requirements of Legislative Decree 196 of June 30, 2003, and subsequent amendments (Italian Personal Data Protection Code and related Annex B - Technical specifications concerning minimum security measures).

## Change in Staff Headcount

In order to support the development plans of the Banking Group and best meet the critical situation of the period, headcount was steadily increased over the years, as can be seen in the table below.

Category	2009	2010	2011	2012	2013	2014
Executives	6	6	5	7	7	10
Supervisors	22	24	29	31	34	55
Remaining staff	54	57	61	67	67	86
<b>Total</b>	<b>82</b>	<b>87</b>	<b>95</b>	<b>105</b>	<b>108</b>	<b>151</b>

During the year 38 new resources were added to the Group. Such increase in headcount was aimed at reinforcing the management structure and adding qualified professional staff.

*in € thousands*

Item	2009	2010	2011	2012	2013	2014
Personnel costs	9,031	9,030	8,814	11,802	13,227	14,828

Personnel costs increased mainly as a result of the staff additions during the current year.

## Transactions with the Parent and Other Related Parties

By the act recorded in the Register of Companies on October 13, 2014, the merger of FF Holding S.p.A. in Banca Farmafactoring S.p.A. was finalized following authorization received from Bank of Italy on July 18, 2014 and in execution of the shareholders' resolutions passed on September 9, 2014.

The transaction consisted of the merger of the parent in its subsidiary and did not have any impact on the equity of Banca Farmafactoring since the value of the investment held by the merged company and cancelled as a result of the merger essentially corresponded to the equity of FF Holding S.p.A..

Moreover, as set out in the related merger project, the merger was effective for accounting and tax purposes starting from the beginning of the year. Accordingly, the transactions entered into by the merged company for the period from January 1, 2014 to the date of the effective merger were recognized in Banca Farmafactoring's income statement.

To this end, it should be noted that in view of the limited operations of the merged company, the impact on the income statement of Banca Farmafactoring resulting from the subsequent retroactive recording of income and expenses amounted to about €463 thousand.

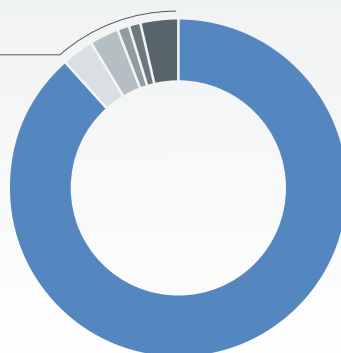
Following this transaction, the new majority shareholder of the Bank is Farma Holding S.à r.l. which holds 88.35% of share capital.

The shareholders of Banca Farmafactoring are the following:

### Shareholders

11.65%

3.27% BRACCO  
 2.59% MERCK SERONO  
 1.21% L. MOLTENI & C. DEI F.LLI ALITTI  
 1.21% MEDIOLANUM FARMACEUTICI  
 3.37% MANAGEMENT



88.35%  
 FARMA HOLDING

The Group has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, conducted on an arm's length basis.

There is a license agreement between Banca Farmafactoring and its wholly-owned subsidiary Farmafactoring España S.A. This agreement covers IT user rights to the software, organizational methods and communication lines of Banca Farmafactoring, as well as the assistance, maintenance and monitoring of these IT rights. Royalties are paid as consideration and, for the year 2014, amounted to about €533 thousand.

An intercompany loan agreement entered into on an arm's length basis was signed in May 2014. The loan is due on November 2015 and at December 31, 2014 was drawn for €243 million.

The ordinary shareholders' meeting of Farmafactoring España held on February 13, 2015 approved the financial statements for the year ended December 31, 2014. Thanks to the increase in volumes, the subsidiary reported a profit of €2,175 thousand.

Following its engagement for a voluntary audit, Deloitte S.L. expressed an unqualified opinion on the financial statements of Farmafactoring España S.A., approved on February 13, 2015.

Additional information on related party transactions is presented in the Notes in Part H – Related party transactions.

## Business Outlook

According to the approved planning guidelines, Banca Farmafactoring will pursue the policy undertaken in past years, developing commercial policies geared to the strengthening of its relationships with existing clientele, expanding its operations so that its business will not be restricted solely to the management of credit deriving from the supply of pharmaceuticals or diagnostic products but will be extended to other merchandise sectors and services supplied to the Public Administration in general.

In particular, the Bank, since it operates within a group framework, in response to the needs expressed by multinational pharmaceutical and biomedical corporations that are already clients in Italy and Spain, and interested in the sale of receivables due from the National Health Service in Portugal, intends to develop the Italian and Spanish business model in that country.

In addition, in 2015 the Bank will continue to develop typical banking activities and diversify its forms of funding and will also extend to Spain the model of online deposit accounts already operating in Italy by establishing a Banca Farmafactoring branch.

Such initiatives will require a further increase in human resources and strengthening of the organization of the Bank and the Banking Group.



## Accounting Principles

### General principles

The financial statements have been prepared, as set out in Legislative Decree 38/2005, according to IAS/IFRS international accounting principles.

### Structure of the IAS/IFRS financial statements

The financial statements conform to the provisions of Bank of Italy Circular 262 of December 22, 2005 – 3<sup>rd</sup> update – *“The Financial Statements of Banks: layout and preparation”*.

These consolidated financial statements consist of:

- report on operations;
- consolidated balance sheet;
- consolidated income statement;
- consolidated statement of comprehensive income;
- consolidated statement of cash flows;
- consolidated statement of changes in consolidated equity;
- notes to the consolidated financial statements.

## Reclassified Consolidated Balance Sheet

in € thousands

Item	12.31.2014	12.31.2013	Change
<b>Assets</b>			
Cash and cash balances	3	1	2
Financial assets held for trading	0	5	(5)
Available-for-sale financial assets	370,180	82,015	288,164
Held-to-maturity financial assets	955,932	0	955,932
Due from banks	97,726	325,944	(228,218)
Due from customers	1,554,957	1,136,578	418,379
Property, plant and equipment	12,693	12,829	(137)
Intangible assets	2,053	1,122	931
Tax assets	31,117	40,083	(8,965)
Other assets	7,307	9,336	(2,029)
<b>Total Assets</b>	<b>3,031,967</b>	<b>1,607,913</b>	<b>1,424,054</b>
<b>Liabilities and Equity</b>			
Due to banks	970,508	804,451	166,057
Due to customers	1,168,792	173,438	995,355
Securities issued	469,786	320,000	149,786
Financial liabilities held for trading	46	548	(502)
Hedging derivatives	47	0	47
Tax liabilities	73,057	47,016	26,041
Other liabilities	33,564	25,370	8,194
Employee severance indemnities	717	705	12
Provisions for risks and charges	4,657	3,377	1,280
Equity	186,416	184,096	2,320
Profit for the year	124,378	48,913	75,465
<b>Total Liabilities and Equity</b>	<b>3,031,967</b>	<b>1,607,913</b>	<b>1,424,054</b>

## Reclassified Consolidated Income Statement

in € thousands

Item	2014	2013	Change
Interest income	252,550	154,643	97,908
Interest expenses	(44,240)	(53,644)	9,405
<b>Net interest margin</b>	<b>208,311</b>	<b>100,999</b>	<b>107,312</b>
<b>Net fee and commission income</b>	<b>8,239</b>	<b>9,164</b>	<b>(925)</b>
Gains/losses on trading	497	1,701	(1,204)
Fair value adjustments in hedge accounting	(7)	0	(7)
Gains /losses on disposal/repurchase of available-for-sale financial assets	953	0	953
<b>Operating income</b>	<b>217,993</b>	<b>111,864</b>	<b>106,129</b>
Impairment losses/reversals on financial assets	43	(1,136)	1,180
Administrative expenses	(35,954)	(30,278)	(5,677)
Net adjustments to/writebacks on property, plant and equipment and intangible assets	(1,743)	(1,789)	47
Net provisions for risks and charges	(1,280)	(734)	(546)
Other operating income (expenses)	7,032	6,609	423
<b>Profit before income taxes from continuing operations</b>	<b>186,092</b>	<b>84,537</b>	<b>101,555</b>
Income taxes - ordinary rate	(61,714)	(35,624)	(26,091)
<b>Profit for the year</b>	<b>124,378</b>	<b>48,913</b>	<b>75,465</b>

## Comments on the Reclassified Consolidated Balance Sheet

The key line items in the reclassified consolidated balance sheet are commented below.

### Available-for-sale financial assets

*in € thousands*

Item	12.31.2014	12.31.2013	Change
Government securities	370,157	81,992	288,164
Investments	23	23	0
<b>Total</b>	<b>370,180</b>	<b>82,015</b>	<b>288,164</b>

During the year AFS securities in portfolio at December 31, 2013 were sold for a nominal amount of €80 million. Government securities were then purchased to protect against liquidity risk and to optimize the cost of money for a total nominal amount of €368 million. The securities held are at variable rates (CCT) with a maturity date within two years.

These securities are classified in the AFS portfolio and as such are measured at amortized cost. The interest earned is recorded in the income statement according to the effective interest method.

At the end of the year, the value of the securities is compared to their fair value and the fair value adjustment is recognized in equity under valuation reserves.

At December 31, 2014, the fair value reserves on AFS securities amount to approximately €238 thousand net of the tax effect.

### Held-to-maturity financial assets

*in € thousands*

Item	12.31.2014	12.31.2013	Change
Government securities	955,932	0	955,932
<b>Total</b>	<b>955,932</b>	<b>0</b>	<b>955,932</b>

In 2014 government securities were purchased, again to protect against liquidity risk and to optimize the cost of money, for a total nominal amount of €928 million, classified in the HTM portfolio.

These securities are at a fixed rate (BOT, BTP and CTZ) with maturity dates related to the sources of committed and unsecured funding. Such securities were classified in the HTM portfolio and therefore measured at amortized cost. The interest earned was recorded in the income statement according to the effective interest method.

The HTM portfolio refers to financial assets which the company intends to hold until the maturity date set in the contract, and which permits the collection of fixed and determinable amounts. According to IAS 39, an entity may not classify any financial assets as held-to-maturity if the entity has sold or reclassified, during the current or the preceding two fiscal years, more than an insignificant amount of held-to-maturity investments before their maturity.

The fair value of these securities at December 31, 2014 is €957,357 thousand, with a positive fair value change compared to the carrying amount at the same date of €1,436 thousand, which is not recognized in the financial statements.

### Due from banks and customers

*in € thousands*

Item	12.31.2014	12.31.2013	Change
Due from banks	97,726	325,944	(228,218)
Due from customers	1,554,957	1,136,578	418,379
<b>Total</b>	<b>1,652,683</b>	<b>1,462,522</b>	<b>190,161</b>

“Due from banks” consist mainly of the Group’s current account balances at the end of the year.

This line item includes:

- €9,452 thousand with Istituto Centrale delle Banche Popolari (ICBPI) which provides business processing services for SEPA payments, on behalf of Banca Farmafactoring.
- €37,194 thousand relating to the Real Time Gross Settlement (RTGS) TARGET 2 account with Bank of Italy and opened by Banca Farmafactoring in July 2014.
- Approximately €919 thousand relating to the mandatory reserve deposit held by ICBPI since Banca Farmafactoring participates indirectly in the system.

As for "Due from customers", details are as follows:

*in € thousands*

Item	12.31.2014	12.31.2013	Change
Assignors – loan account	855	2,244	(1,388)
Non-recourse receivables purchased	1,520,001	1,125,045	394,956
Receivables purchased below face amount	15,733	2,447	13,287
Receivables due from subsidiary/parent	0	1,700	(1,700)
Other receivables due from customers	18,368	5,142	13,226
Receivables due from financial institutions	0	0	0
<b>Total</b>	<b>1,554,957</b>	<b>1,136,578</b>	<b>418,379</b>

Non-recourse receivables purchased are measured at "amortized cost" based on the present value of estimated future cash flows. They refer to both the principal amount and late interest which accrues from the due date of the receivable.

Non-recourse receivables purchased include €250.8 million relating to Farmafactoring España compared to €46.1 million in the prior year.

Until December 31, 2013 the receivables for interest on late payments invoiced were completely written off through a provision account recognized as a deduction from the asset; the interest on late payments due but not invoiced to the debtor was not recorded. When the actual interest on late payments was collected, this write-off was reversed and the interest on late payments was credited to the income statement on the basis of the percentage of recovery effectively realized.

During 2014, the Bank acquired analysis instruments which enabled it to obtain a time series of data such as to permit the calculation of a reliable estimate of the probable amount of interest on late payments that will be collected and the relative collection times. As a consequence, starting from the financial statements for the year ended December 31, 2014, the Bank applied the percentage of recoverability to receivables for interest on late payments calculated as a result of the above time series analysis.

The weighted average trend of the collection percentages over the years, forming the time series considered, is more than 40% and, therefore, prudently, this percentage was used for the estimate of the amount of interest on late payments that will be collected in the future and which is recorded under receivables for an amount of €113,396 thousand, with the date of collection estimated at 1800 days from the due date of the purchased invoice.

This recovery percentage, however, was not applied to the interest on late payments relating to non-performing positions which are, therefore, completely written off.

With regard to the receivables purchased by Farmafactoring España, the average percentage recovery of interest on late payments observed tends to be equal to 100% and is collected in less time on average than receivables from the Italian Health Service. Nevertheless, since the sample size observed is limited, it was prudently decided to positively consider the utilization of the same recovery rate of 40% and the same collection time of 1800 days as used by Banca Farmafactoring.

The cumulative amount of interest on late payments to which the Group is entitled and not yet collected, in relation to non-recourse receivables purchased (the provision account for interest on late payments) at the Group level, is €357 million, €386 million and €427 million, respectively, for the years ended December 2012, 2013 and 2014. At December 31, 2014, as a result of the change in the estimate of the recoverability of interest on late payments, a portion of such provision account, equal to €113 million, was recognized in the income statement and in due from customers in the Group's balance sheet.

There are still two open health care securitization transactions, structured by Banca IMI and Deutsche Bank.

With regard to the securitization structured by Banca IMI, the receivables were sold to the vehicle company FF Finance S.r.l. but were not derecognized since the sale does not involve the transfer of the risks and rewards of ownership.

As for this transaction, the gross value of the receivables sold and not derecognized, outstanding at December 31, 2014, amounts to €20,981 thousand.

Similarly to the transaction with the vehicle FF Finance S.r.l., for the securitization structured by Deutsche Bank, the receivables were sold to the vehicle Farmafactoring SPV I S.r.l. and the assets were not derecognized. With regard to this transaction, the gross value of the receivables sold and not derecognized, outstanding at December 31, 2014, amounts to a €221,704 thousand.

Included in non-recourse receivables purchased are those purchased in Portugal, which amount to €21.9 million at December 31, 2014.

On September 25, 2014 repayment of the Senior Notes under the Farmafactoring SPV II securitization program structured by BayernLB, originally for an amount of €70 million, was completed.

### *Credit quality*

Again in 2014, credit quality remains significant, as described below: net non-performing receivables amount to €2,936 thousand (€4,819 thousand gross), while the ratio of non-performing to total non-recourse receivables purchased is equal to 0.19%, in line with the prior year.

The Bank carried out an analysis to identify any impairment of financial assets.

This analysis made it possible to distinguish between "performing" and "non-performing" receivables; included in the non-performing category are financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing receivables include receivables due from customers which, although past due more than 90 days, show no objective indication of impairment at an individual level.

Although the receivables are due almost entirely from the Public Administration, as in previous years, at the date of the interim and year-end financial statements, the Bank, in accordance with IAS 39, carried out a collective impairment test of performing receivables in order to monitor the quantitative content.

In order to determine the Loss Given Default (LGD), the Bank assumed the value proposed by the "Basel Accord" for credits not covered by real guarantees from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.

The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs / AOs), corresponding to the credit rating for the particular Region to which the debtors belong as assigned by the major rating agencies.

Such analysis and the manner of calculation were formulated when the transition was made to international accounting standards. Such calculation has never produced significant data since the PD attributed to the Regions based on the ratings led to a modest impairment, up to June 2012, according to the impairment test.

Starting from July 2012, the input parameters for the collective impairment model led, as a result of the continual downgrades of the Republic of Italy and the consequent downgrade of the Regions in the fourth quarter of 2011, to a higher PD calculation compared with the past and, consequently, to a collective impairment loss that is no longer negligible. In particular, at December 31, 2014, the impairment test indicated an impairment loss of approximately €2 million.

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – *"The Financial Statements of Banks: layout and preparation"*, and subsequent updates, the Bank has divided its loans between "performing" and "impaired".

To this end, net "Impaired assets" totaling €12,778 thousand correspond to the sum of:

- Past due
- Restructured
- Doubtful
- Non-performing.

The definitions of these categories are set out in the Regulatory Reporting in force, and defined in Bank of Italy Circular 272 of July 30, 2008 *"Matrix Accounts"*, and subsequent updates.

#### *Past due*

These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2014 are past due more than 90 days.

In particular, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payment for any debt positions due to the bank for more than 90 days.

At December 31, 2014, total net past due receivables amount to €9,779 thousand (€9,795 thousand gross).

#### *Restructured*

These are exposures for which a bank, owing to the deterioration of the economic and financial conditions of the debtor, agrees to modify the original contract terms, which give rise to a loss.

At December 31, 2014, the Bank does not have any positions classified as restructured receivables.



### *Doubtful*

These are exposures with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.

Doubtful receivables also include so-called "objective" doubtful receivables, that is, exposures that present the following conditions:

- do not belong to the "Central Administrations and central banks", "Territorial entities" and "Public sector entities" portfolios;
- are past due on a continuing basis more than 270 days;
- the total amount of past due receivables represents a portion equal to at least 10% of the entire exposure.

At December 31, 2014, total net doubtful receivables amount to €62 thousand and consist solely of "objective" doubtful receivables.

### *Non-performing*

These refer to exposure with parties that are in a state of insolvency or in basically similar situations, regardless of any provisions for loss set aside by the Bank.

Net non-performing exposures amount to approximately €2.9 million of which €2.4 million refers to Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

The composition of creditors was approved on March 19, 2012 with a 52.45% favorable vote by those entitled. Subsequent to the meeting, other creditors requested to be admitted to the composition thus bringing the favorable votes to 84.66%.

With regard to the percentages of recovery established by the creditor plan, and owing to the recognition of the receivables for interest on late payments, no impairment charge for principal was recorded.

In 2013 Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors made the payment for the first and second distributions for a total of €9.6 million. These payments, since the position was not written off, did not result in a reinstatement of value.

In 2014 another debtor and assignor were considered non-performing for an amount of approximately €570 thousand, which has not been written down because it is covered by guarantees.

The other non-performing positions of €2.4 million were completely off against the provision account and their net book value is now zero.

The provision account for interest on late payments on non-performing positions amounts to €14.9 million and is completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

The composition of impaired assets at December 31, 2014 and December 31, 2013 is presented below:

*in € thousands*

Type	12.31.2014			12.31.2013		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
<b>Non-performing</b>	<b>19,699</b>	<b>(16,763)</b>	<b>2,936</b>	<b>4,635</b>	<b>(2,267)</b>	<b>2,368</b>
Exposure with assignors	701	(275)	427	258	(258)	0
Exposure with assigned debtors	4,117	(1,608)	2,509	4,378	(2,009)	2,368
Provision for interest on late payments	14,880	(14,880)	0			
<b>Doubtful</b>	<b>62</b>	<b>(0)</b>	<b>62</b>	<b>196</b>	<b>(0)</b>	<b>196</b>
Exposure with assignors	0	0	0	0	0	0
Exposure with assigned debtors	62	(0)	62	196	(0)	196
<b>Restructured</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Exposure with assignors	0	0	0	0	0	0
Exposure with assigned debtors	0	0	0	0	0	0
<b>Past due</b>	<b>9,795</b>	<b>(16)</b>	<b>9,779</b>	<b>6,427</b>	<b>(625)</b>	<b>5,803</b>
Exposure with assignors	0	0	0	0	0	0
Exposure with assigned debtors	9,795	(16)	9,779	6,427	(625)	5,803
<b>Total</b>	<b>29,556</b>	<b>(16,778)</b>	<b>12,778</b>	<b>11,259</b>	<b>(2,892)</b>	<b>8,367</b>

Legal actions undertaken by the Bank are mainly geared towards accelerating the recovery of receivables.

The following table presents non-recourse receivables purchased, with an indication of impairment losses, and is broken down into "Performing exposures" and "Impaired Exposures". The impairment loss for "performing exposures" represents a collective impairment.

*in € thousands*

Type	12.31.2014			12.31.2013		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Impaired exposures	13,974	(1,624)	12,351	11,001	(2,634)	8,367
Performing exposures	1,526,051	(2,668)	1,523,383	1,121,098	(1,973)	1,119,125
<b>Total</b>	<b>1,540,026</b>	<b>(4,292)</b>	<b>1,535,734</b>	<b>1,132,099</b>	<b>(4,607)</b>	<b>1,127,492</b>

## Property, plant and equipment

in € thousands

Item	12.31.2013	Net increase	Net decrease	12.31.2014	% of total
Buildings	7,634	262	(314)	7,582	59.73%
Land	3,685	0	0	3,685	29.03%
Systems	414	93	(167)	341	2.68%
Furniture and fixtures	276	38	(67)	248	1.95%
Electronic machines	515	507	(360)	662	5.21%
Other property and equipment	305	17	(146)	176	1.39%
<b>Total</b>	<b>12,829</b>	<b>917</b>	<b>(1,053)</b>	<b>12,693</b>	<b>100.00%</b>

At the date of IFRS first-time adoption (January 1, 2005), the properties used in the business (Milan and Rome) were measured at fair value which then became the new cost from that date.

The measurement at first-time adoption resulted in a revaluation of the buildings of about €4 million, from approximately €5 million to €9 million.

Among the largest net additions are "electronic machines" which mainly refer to hardware purchases, whereas those of buildings represent renovation work on the building owned in Milan.

## Tax assets and liabilities

in € thousands

Item	12.31.2014	12.31.2013	Change
<b>Tax assets</b>	<b>31,117</b>	<b>40,083</b>	<b>(8,965)</b>
<i>current</i>	28,572	37,879	(9,307)
<i>deferred</i>	2,545	2,204	342
<b>Tax liabilities</b>	<b>73,057</b>	<b>47,016</b>	<b>26,041</b>
<i>current</i>	30,885	35,797	(4,911)
<i>deferred</i>	42,171	11,219	30,952

The decrease in current tax assets arises mainly, for the previous year, from the provisions of Legislative Decrees 102 of August 31, 2013 and 133 of November 30, 2013, which raised the advance payments for IRES and IRAP taxes to 130% for banks and financial companies for the current tax period to December 31, 2013.

The amount of tax liabilities in 2014 was affected by the change in method used to estimate the provision for interest on late payments. This led to the recognition in the year 2014 of the effects of such change, both on the receivables recorded during the year and those recorded in past years, resulting in the recognition of very significant non-recurring income in the income statement.

Such income gave rise to higher current taxes of €6.2 million and higher deferred taxes of €31 million.

The current tax liabilities relating to the prior year come from the application of Legislative Decree 133 of November 30, 2013 which required, for 2013, credit and financial institutions and insurance companies to pay a further 8.5% over the ordinary IRES tax rate, which thus rose from 27.5% to 36%.

#### Due to banks and customers

*in € thousands*

Item	12.31.2014	12.31.2013	Change
Due to banks	970,508	804,451	166,057
Due to customers	1,168,792	173,438	995,355
<i>Of which financial institutions</i>	<i>231,946</i>	<i>72,379</i>	<i>159,567</i>
<b>Total</b>	<b>2,139,300</b>	<b>977,889</b>	<b>1,161,412</b>

“Due to banks” refers to loans granted by the banking system of €550.5 million and the deposit of €420 million made in the central bank for Banca Farmafactoring’s participation in the December 31, 2014 auction, as part of Bank of Italy’s monetary policy operations. The transaction is guaranteed by government securities pledged and deposited in the ECB’s Pool account.

“Due to customers” refers to the amounts due for the online deposit account, Conto Facto, begun in September 2014 and equal to €225.9 million. The balance is divided between current accounts and demand deposits for €10,567 thousand and time deposits for €215,316 thousand in addition to repo transactions, for about €595 million, with Cassa di Compensazione e Garanzia as the counterparty, put into place to refinance the securities portfolio of the Bank.

“Due to financial institutions” refers to:

- position of €103.3 million arising from existing collaboration with International Factor Italia S.p.A. - IFITALIA, due May 31, 2015;
- position of €88.7 million arising from existing collaboration with Unicredit Factoring S.p.A.;
- loan of €40 million secured from Cassa Depositi e Prestiti.

## Securities issued

On June 12, 2014 Banca Farmafactoring successfully concluded its first Senior Unsecured bond issue.

The bonds were privately placed with institutional investors for a total face value of €300 million. This is a three-year bond issue with a maturity date of June 12, 2017, unsecured and not rated.

The bonds are measured at amortized cost using the effective interest method. At December 31, 2014 the amount is equal €303.1 million.

The other bonds refer to securitization transactions outstanding at year-end for approximately €166.6 million.

## Financial assets/liabilities held for trading

“Financial assets/liabilities held for trading” refer to derivative financial instruments used to hedge interest rate risk.

Derivative financial instruments are used to hedge fluctuations in market interest rates compared with the fixed rate implicit in non-recourse fees and commissions.

Derivatives are recognized as “Financial assets/liabilities held for trading” in accordance with IAS 39 although operationally they are considered as hedges of interest rate risk relating to the purchase of non-recourse receivables.

Derivatives are measured at fair value through profit or loss.

“Financial assets held for trading” are a zero balance at December 31, 2014, whereas the balance at December 31, 2013 was €5 thousand. “Financial liabilities held for trading” total €46 thousand compared to €548 thousand at December 31, 2013.

Fair value changes were recognized in the income statement for a positive €497 thousand within “Gains/losses on trading”.

## Hedging derivatives

Hedging transactions are aimed at neutralizing potential losses attributable to specific types of risks.

The Bank uses interest rate swaps (IRS) as instruments to hedge the interest rate applied to its funding.

Derivative hedging instruments, like all derivatives, are initially measured at fair value and subsequently remeasured at fair value.

When a financial instrument is designated as a hedge, the Bank formally documents the relationship between the hedging instrument and the hedged item.

As a result, the Bank assesses the hedging instrument’s effectiveness, at inception and during its life, in offsetting the exposure to changes in the hedged item’s fair value.

A hedge is considered effective if, at the inception of the hedge and during its life, changes in the hedged item’s fair value or cash flows are offset by changes in the hedging derivative’s fair value. In this case the fair value changes are recognized in equity.

The ineffectiveness of the hedge is represented by the difference between the change in the hedging instrument and the change in fair value of the hedged item, and is shown in the income statement in item 90. In 2014, this item amounts to €7 thousand.

Hedging derivatives at December 31, 2014 are shown in item 60 of liabilities and amount to €47 thousand.

### Provisions for risks and charges

At December 31, 2014, "Provisions for risks and charges" amount to €4,499 thousand and mainly include provisions referring to personnel.

Provisions comprise €3,795 thousand for "Pension funds and similar obligations".

*in € thousands*

Item	12.31.2013	Increase	Decrease	12.31.2014
Long-term employee benefits	2,672	1,280		3,952
<b>Total</b>	<b>2,672</b>	<b>1,280</b>	<b>0</b>	<b>3,952</b>

These obligations were measured in accordance with IAS 19 and were computed using a criterion for actuarial calculations.

## Comments on the Reclassified Consolidated Income Statement

The reclassified consolidated income statement for the year 2014 shows a pre-tax profit of €186,092 thousand compared to €84,537 thousand in the prior year.

The increase is for the most part due to the recognition of the effect, equal to €113,396 thousand, arising from the change in method used to estimate the provision for interest on late payments and the difference on maturity commissions arising from such change.

Until last year the Bank completely wrote off receivables for interest on late payments through a provision account recognized as a deduction from the asset and did not recognize the interest accrued but not yet invoiced to the debtor. When the actual interest on late payments was collected, this write-off was reversed and the interest on late payments was credited to the income statement on the basis of the percentage of recovery effectively realized. Such recognition did not provide a timely matching of costs and revenues.

During 2014, the Bank acquired analysis instruments which enabled it to obtain a time series of data such as to permit the calculation of a reliable estimate of the probable amount of interest on late payments that will be collected and the estimated collection times. As a consequence, the

Bank changed the estimation criterion and applied, beginning in 2014, the percentage of recoverability to receivables for interest on late payments calculated as a result of the above time series analysis, equal, prudently, to 40% of their nominal amount at the estimated date of collection (conservatively fixed at 1800 days).

With regard to the receivables purchased by Farmafactoring España, the average percentage recovery of interest on late payments tends to be equal to 100% and is collected in less time on average than receivables from the Italian Health Service. Nevertheless, since the sample size observed is limited, it was prudently decided to positively consider the utilization of the same recovery rate of 40% and the same collection time of 1800 days as used by Banca Farmafactoring.

The change in the method of estimating the provision for interest on late payments led to the recognition in 2014 of the effects of such change, both on the receivables recognized in 2014 and on the receivables recorded in past years. This resulted in the recognition of very significant non-recurring income in the income statement of €113,396 thousand. In future years, the income statement will only include the recognition of interest on late payments on an accrual basis for the individual years of reference.

The key line items in the consolidated income statement are commented below:

## Operating income

*in € thousands*

Item	2014	2013	Change	Change %
Maturity commissions	72,630	97,896	(25,267)	(25.81%)
Interest on late payments	173,447	51,188	122,259	238.84%
Interest on securities	4,060	1,548	2,512	-
Other interest	2,414	4,011	(1,597)	(39.82%)
<b>Total interest income</b>	<b>252,550</b>	<b>154,643</b>	<b>97,907</b>	<b>63.31%</b>
Interest expenses	(44,240)	(53,644)	9,405	(17.53%)
<b>Net fee and commission income</b>	<b>8,239</b>	<b>9,164</b>	<b>(925)</b>	<b>(10.09%)</b>
Gains/losses on trading	497	1,701	(1,204)	(70.78%)
Fair value adjustments in hedge accounting	(7)			
Gains on disposal of AFS financial assets	953			
<b>Operating income</b>	<b>217,993</b>	<b>111,864</b>	<b>106,129</b>	<b>94.87%</b>

The recognition of "Maturity commissions" in the consolidated income statement reflects the effective interest from the application of the amortized cost criterion for measuring non-recourse receivables purchased, in accordance with IAS 39, as a result of which the income connected with such activity is recognized in relation to the interest originating from the estimated cash flows.

Maturity commissions referring to 2014 total €72.5 million, a reduction compared to 2013 due to the decrease in average commissions applied during the year.

Interest on late payments recorded for €173,447 thousand reflects the effect of the change in the method of estimating interest on late payments, for €113,396 thousand. Collections of interest on late payments during the year total €60,051 thousand, an increase over €51,188 thousand relating to 2013, thanks also to an important agreement reached with Asp of Cosenza and approximately €700 thousand collected by Farmafactoring España.

The interest on late payments recognized in the income statement only represents a portion of the amount due and legally collectible. For prudent purposes, in fact, under the current system interest on late payments is recognized in the income statement at 40% of the nominal amount, at the estimated collection date (conservative fixed at 1800 days), in accordance with the amortized cost method.

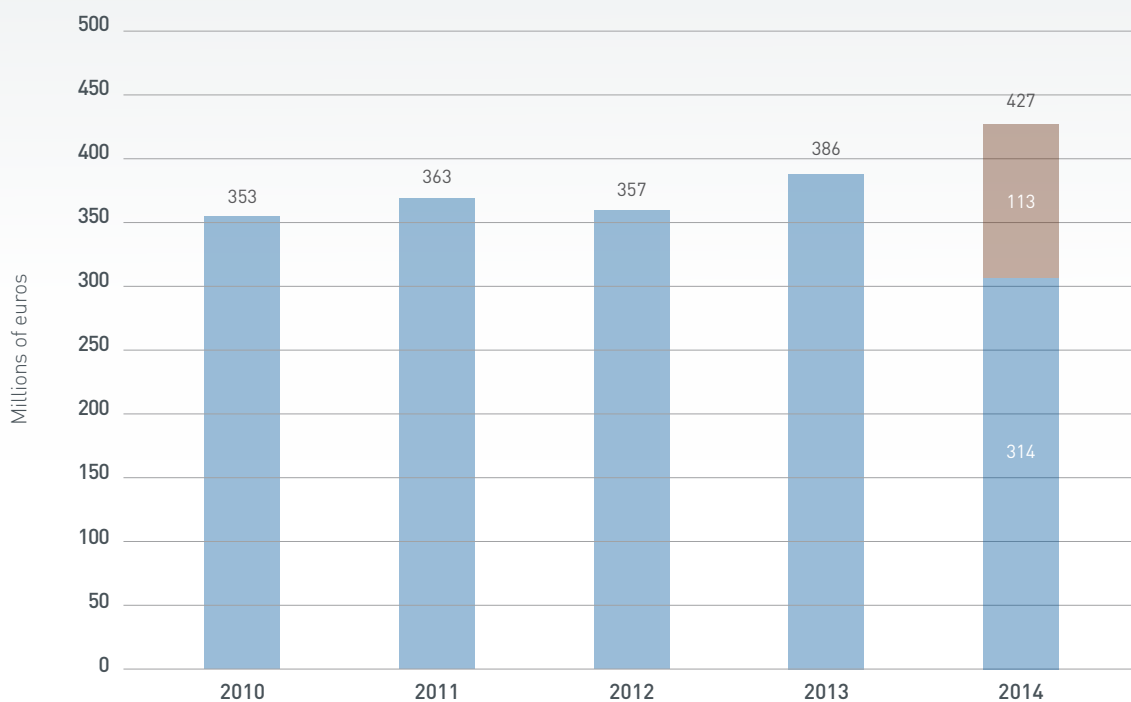
This data compares with a higher percentage of actual collections on the amount due of about 50% in 2014 and 45% in 2013, leaving a further positive margin where the collections in the future are in line with the experience of 2014.

Similarly, with regard to the collection times of interest on late payments, the time series evidenced an average, for prior years, of about 1600 days. Prudently, in the same way that it was decided to use a lower recovery rate, 1800 was chosen for the number of days to collection for the application of the amortized cost method.

The cumulative amount of interest on late payments to which the Group is entitled and not yet collected, in relation to non-recourse receivables purchased (the provision account for interest on late payments) at the Group level, is €357 million, €386 million and €427 million, respectively, for the years ended December 31, 2012, 2013 and 2014. At December 31, 2014, as a result of the change in the estimate of the recoverability of interest on late payments, a portion of such provision account, equal to €113 million, was recognized in the income statement and in receivables from customers in the Group's balance sheet.



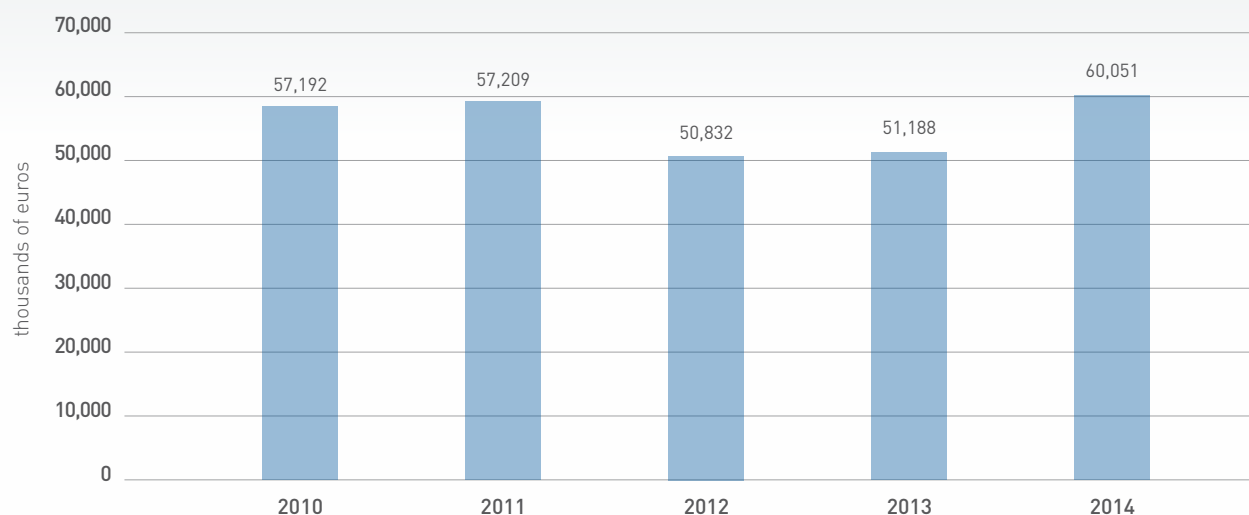
### Banking Group - Provision for interest on late payments



The following graph illustrates the trend of interest collected on late payments in recent years.

Furthermore, the legal expenses already incurred for the recovery of receivables and expensed in full, are expected to generate collections for the Bank of approximately €2.8 million over the next few years, which will be recognized at the date of actual recovery.

## Banking Group - Collections of interest on late payments



“Interest on securities” refers to government securities purchased by the Bank during 2014 and classified in the AFS and HTM portfolios. The amortized cost method is used for the measurement of these securities and the interest is recorded in the income statement using the effective interest method.

“Interest expenses” decreased by about €9.4 million compared to 2013. This decrease is mainly due to the reduction in the cost of money, the renegotiation of certain lines of financing and the diversification of sources of funding, despite the increase in the average financial position due to higher volumes of non-recourse receivables purchased.

### Net fee and commission income

The income from net fees and commissions shows a decrease of approximately €925 thousand compared to the prior year as presented in the following table:

*in € thousands*

Item	2014	2013	Change	Change %
Fee and commission income	9,444	10,272	(828)	(8.06%)
Fee and commission expenses	(1,205)	(1,108)	(97)	8.75%
<b>Net fee and commission income</b>	<b>8,239</b>	<b>9,164</b>	<b>(925)</b>	<b>(10.09%)</b>

## Gains/losses on trading

“Gains/losses on trading” refer to the recognition of the fair value change of derivative instruments which in 2014 show a positive change of €0.5 million compared to the positive change of approximately €1.7 million in 2013.

### Fair value changes on derivative instruments

*in € thousands*

Item	Carrying amount	Change
<b>Financial assets held for trading</b>		
Amount at 12.31.2013	5	
Amount at 12.31.2014	0	(5)
<b>Financial liabilities held for trading</b>		
Amount at 12.31.2013	548	
Amount at 12.31.2014	46	502
<b>Net change in fair value recorded in gains/losses on trading</b>		<b>497</b>

## Fair value adjustments in hedge accounting

A hedge is considered effective if, at the inception of the hedge and during its life, changes in the hedged item’s fair value or cash flows are offset by changes in the hedging derivative’s fair value. In this case, the fair value changes are recognized in equity.

The ineffectiveness of the hedge is represented by the difference between the change in fair value of the hedging instrument and the change in fair value of the hedged item, and is shown in the income statement in item 90. In 2014, this item amounts to €7 thousand.

*in € thousands*

Item	Carrying amount	Change
<b>Hedging derivatives – Balance sheet</b>		
Hedging derivatives (item 90)	47	
Equity + Deferred tax assets	(40)	
<b>Fair value adjustments in hedge accounting</b>		<b>(7)</b>

## Objectives and Policies on the Assumption, Management and Hedging of Risks

### Going concern

In accordance with IAS 1, paragraph 24, the Banking Group assesses its ability to continue as a going concern by taking into account the trend of its main core indicators and available information about the future for at least 12 months after the reporting date.

### Performance review

The performance review of the last few years shows a continuing positive trend.

The data can be summarized as follows:

- increasing trend of Own Funds;
- steady increase in the number of staff over the last few years;
- adequacy of capital in relation to the risks connected with lending activities;
- sufficient availability of financial resources;
- positive commercial prospects associated with the trend in demand.

A quantitative summary of such review is presented below:

*in € millions, unless otherwise indicated*

Item	12.31.2014	12.31.2013	12.31.2012
Net interest income	208.3	101.0	102.5
Operating income	218.0	111.9	110.0
EBTDA	187.8	88.2	87.1
<b>Profit for the year</b>	<b>124.4</b>	<b>48.9</b>	<b>56.2</b>
<b>R.O.E. (Return On Equity) (%)</b>	<b>66.7%</b>	<b>26.6%</b>	<b>31.0%</b>
Operating income / Non-recourse volumes (%)	10.0%	6.3%	6.4%
Interest expenses / Maturity commissions (%)	60.3%	53.1%	53.4%
Net interest income / Interest income (%)	82.5%	65.3%	67.4%
Non-performing (net of impairment losses) / Factoring receivables (%)	0.19%	0.21%	0.96%
Own funds / Weighted factoring receivables (%) (1)	42.1%	34.0%	14.7%
Financial leverage	16.3	8.7	7.9
<b>Equity</b>	<b>310.8</b>	<b>233.0</b>	<b>237.3</b>
<b>Own Funds</b>	<b>260.1</b>	<b>185.3</b>	<b>182.4</b>

(1) The weighting applied to receivables from the Italian Public Administration is equal to 50% in 2011 and from 2013 and 100% in 2012.

The increase in Own Funds and Shareholders' Equity compared to the prior year is attributable to the profit for the year, which reflects the change in the estimation method of interest on late payments.

In prospective terms, the Banking Group's plans for growth highlight further significant margins for expansion, shaped partly by the start of the operating activities of Farmafactoring España S.A., which will bring a new vision to the group's development.

Consequently, there are no elements such as to compromise the going concern assumption.

#### *Prospective review*

The considerations described previously are borne out by the Business Plan for the three years 2014 – 2017, approved by the board of directors on May 23, 2014, from which it can be seen that, in prospective terms, there are good expectations from both the standpoint of turnover and earnings.

Commercial efforts will be directed, from the broader prospective of a banking group, both towards cementing and expanding relations with the traditional clientele and also acquiring new clientele and developing new products.

In an economic and financial context that is still challenging, the Group has further strengthened its position in the country by building up commercial relations and diversifying banking relations in order to reduce, as much as possible, the risk of the concentration of relationships and minimizing the timing process for the crediting of sums made available by the entities of the National Health System and the Public Administration.

In view of the aforementioned considerations associated with the historical and prospective review of the earnings of the Bank and its ability to access financial resources, the Group will continue its operating activities under the assumption of a going concern and, consequently, these financial statements are drawn up under such assumption.

#### **Risk management and compliance with prudential supervision regulations**

The prudential supervision regulations are regulated by Bank of Italy Circular 263 of December 27, 2006 – 15th update – “*New prudential supervision regulations for banks*”.

The new regulation harmonized for banks and investment companies, contained in the CRR community regulation (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013 is applicable from January 1, 2014 on the basis of Bank of Italy Circular 285 “*Supervisory provisions for banks*” and 286 “*Instructions for the preparation of regulatory reporting for banks and investment companies*”, both of December 17, 2013.

These laws include the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of Bank of Italy, and define the ways with which the discretionalities attributed by community discipline to the national authorities were exercised.

The above circulars outline the complete, organic, rational and integrated regulatory framework with the directly applicable community provisions, which will be completed, during the course of the 2015, with the emanation of the execution measures, contained in the regulatory technical standard and implementation technical standard, adopted by the European Commission under the proposal by the European Banking Authority (EBA).

The regulation applicable at December 31, 2014 is based on three pillars.

#### Pillar I – Capital requirements to meet typical risks associated with financial activities

From the standpoint of operations, the absorption of risks, where significant, is calculated using various methods:

- credit risk → standardized approach
- counterparty risk → standardized approach
- market risk → standardized approach
- operational risk → basic indicator approach

#### **Own Funds**

Own Funds represent the first line of defense against risks associated with overall financial activities and constitutes the main parameter of reference for the assessment of the capital adequacy of the Banking Group. The purpose of the prudential supervision regulation is to assure the Regulatory Authority that the banks have a minimum obligatory capital in relation to the risks assumed.

The Group constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, assisted also by its internal Risks Committee.

From the standpoint of prudential supervision, the amount of capital required is determined on the basis of current reporting regulations.

Beginning January 1, 2014 European Regulation 575/2013, which also modified the classification of Regulatory Capital, now denominated "Own Funds", was introduced into legislation. The main change for the Banking Group consists in the reclassification of the valuation reserves on the first-time adoption of IFRS, included in Common Equity Tier 1 Capital.

Regulatory capital at December 31, 2013 has been reclassified according to the new reporting.

Compliance with capital adequacy limits, for the Tier 1 Capital Ratio and the Total Capital Ratio is constantly monitored by the competent corporate bodies.

The Tier 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to the amount of Risk-Weighted Assets.

The Total Capital Ratio is the ratio of Total Own Funds to the amount of Risk-weighted Assets.

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – *"The Financial Statements of Banks: layout and preparation"*, the amount of risk-weighted assets is determined

as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).

The Banca Farmafactoring Group's total exposure to risks at December 31, 2014, in relation to its business, is adequate according to the level of capitalization and the profile of risk identified. The Tier 1 Capital Ratio and the Total Capital Ratio are 27.5%.

*in € millions, unless otherwise indicated*

Details	Total 12.31.2014	Total 12.31.2013
<b>Common Equity Tier 1 Capital (CET1)</b>	<b>260.1</b>	<b>181.3</b>
<b>Tier 2 Capital (T2)</b>	<b>0</b>	<b>4.0</b>
<b>Own Funds</b>	<b>260.1</b>	<b>185.3</b>
Risk-weighted assets	947.1	861.7
<i>Tier 1 Capital Ratio (%)</i>	<i>27.5%</i>	<i>21.0%</i>
<i>Total Capital Ratio (%)</i>	<i>27.5%</i>	<i>21.5%</i>

The increase in Own Funds compared to the prior year is principally attributable to undistributed earnings, which reflect the change in the method of estimating interest on late payments.

Beginning in 2013 Banca Farmafactoring adopted Dominion Bond Rating Service (DBRS) as the ECAI ratings agency.

The unsolicited rating assigned to the Republic of Italy by DBRS is "A low" and therefore the receivables exposures due from the Public Administration fall into the Credit Quality Class of 2, with a weighting equal to 50%.

In the event the receivables from the Italian Public Administration are weighted at 100%, the regulatory capital ratios would be 18.3% for the Tier 1 Capital Ratio and for the Total Capital Ratio.

#### Pillar II – Internal Capital Adequacy Assessment Process (ICAAP) Summary

This Pillar requires banks to have control strategies and processes for determining the adequacy of current and future capital. It is the Regulatory Authority's responsibility to verify the reliability and accuracy of the relative results and, where necessary, to take the appropriate corrective actions.

The Bank presents the ICAAP summary by April 30, 2015 to the Bank of Italy showing the updated risk management system for the determination of the adequacy of capital.

Pillar III – Disclosure to the public

By the date set for the publication of the annual 2014 financial statements, and at least once a year, the Bank publishes on its website [www.bancafarmafactoring.it](http://www.bancafarmafactoring.it), information concerning activities carried out, risks assumed and methods employed (Bank of Italy Circular 263 of December 27, 2006 – 15<sup>th</sup> update - “New prudential supervision regulations for banks”).

Such information is discussed by the Group in greater detail in the Notes under Part E - Information on Risks and related Risk Management Policies.

## Reconciliation between the Equity and Profit for the Year of the Parent and the Consolidated Figures of the Group

*in € thousands*

	Equity 12.31.2014	Profit 2014	Equity 12.31.2013	Profit 2013
<b>Banca Farmafactoring S.p.A.</b>	<b>310,214</b>	<b>122,202</b>	<b>234,605</b>	<b>48,890</b>
Differences compared to the carrying amounts of the consolidated companies				
- <i>Farmafactoring España S.A.</i>	774	2,175	(1,402)	22
Other adjustments	(194)		(194)	
<b>Consolidated figures of the Group</b>	<b>310,794</b>	<b>124,378</b>	<b>233,009</b>	<b>48,913</b>



## Other Information Required by art. 2428 of the Italian Civil Code

Other information required by art. 2428 of the Italian Civil Code, not provided in the preceding paragraphs, is presented below.

### *Treasury shares*

The Bank does not possess treasury shares or quotas of the parent, either directly, through individuals or trustee companies.

### *Significant events subsequent to the end of the year*

With regard to the securitization structured by Banca IMI, on January 9, 2015 an Amendment Agreement was signed which brought forward the end of the revolving phase to January 26, 2015. At January 31, 2015 the Senior Notes outstanding amounted to €0.3 million. Completion of the redemption of the notes is expected during February 2015 and the unwinding of the transaction by the end of the first quarter of 2015.

It should be noted that during February 2015 the pool loan arranged by Intesa San Paolo, for an original amount of €255 million and outstanding for €215 million at December 31, 2014, was fully repaid in advance of the due date in June 2015.

Following the letter sent to the Regulatory Authority on November 3, 2014 concerning Banca Farmafactoring's intention to establish a branch in Spain, on January 30, 2015 the Bank of Italy informed Banca Farmafactoring that it had proceeded to notify the Spanish regulatory authorities of this initiative, in accordance with provisions in force on the subject (Circular 285 of December 17, 2013, Title I, Chapter 5, Section II).

On February 4, 2015 the Bank of Italy of Italy commenced an inspection in Banca Farmafactoring, pursuant to articles 54 and 68 of Legislative Decree. 385 of September 1, 1993. The last inspection of Farmafactoring S.p.A. (when it was an intermediary under ex art. 107) dates back to 2008.

There have been no events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended December 31, 2014.

## Appropriation of the Profit of the Banking Group

The profit of the Group of €124,377,536 is composed of the sum of the profit of Banca Farmafactoring of €122,202,156 and that of Farmafactoring España of €2,175,380.

The ordinary shareholders' meeting of Farmafactoring España held on February 13, 2015 approved the financial statements at December 31, 2014 and resolved to appropriate the profit to fully cover prior years' losses and to retained earnings.

The following motion for the appropriation of the profit of Banca Farmafactoring will be put forward to the shareholders' meeting of the Bank on March 25, 2015, in first call, or on March 26, 2015, in second call.

## Motion for the Appropriation of the Profit of Banca Farmafactoring

Dear Shareholders,

The financial statements for the year ended December 31, 2014, which we submit for your approval, show a profit of €122,202,156 and the board motions for the appropriation of profit as follows:

<b>Profit for the year</b>	<b>122,202,156</b>
to the Legal Reserve (up to 20% of share capital)	4,691,348
To the shareholders	
€28.5 per share to each of the 1,700,000 shares	48,450,000
<b>Retained earnings</b>	<b>69,060,808</b>

After appropriation of the profit, the legal reserve will be equal to €26,180,000 and retained earnings will amount to €100,560,058.

The Chairman  
of the Board of Directors  
Salvatore Messina

02

CONSOLIDATED FINANCIAL STATEMENTS  
AT DECEMBER 31, 2014



## Consolidated Balance Sheet

in euros

ASSETS	12.31.2014	12.31.2013
10. Cash and cash balances	3,213	1,164
20. Financial assets held for trading	0	4,877
40. Available-for-sale financial assets	370,179,751	82,015,308
50. Held to maturity financial assets	955,931,754	0
60. Due from banks	97,726,016	325,944,213
70. Due from customers	1,554,957,278	1,136,577,971
120. Property, plant and equipment	12,692,677	12,829,189
130. Intangible assets of which: - goodwill	2,052,729 0	1,121,966 0
140. Tax assets a) current b) deferred of which under Law 214/2011	31,117,308 28,571,839 2,545,469 469,560	40,082,589 37,878,941 2,203,648 508,690
160. Other assets	7,306,703	9,335,903
<b>TOTAL ASSETS</b>	<b>3,031,967,430</b>	<b>1,607,913,180</b>

in euros

<b>LIABILITIES AND EQUITY</b>	12.31.2014	12.31.2013
<b>10.</b> Due to banks	970,508,159	804,451,120
<b>20.</b> Due to customers	1,168,792,055	173,437,510
<b>30.</b> Securities issued	469,785,852	320,000,000
<b>40.</b> Financial liabilities held for trading	45,760	547,608
<b>60.</b> Hedging derivatives	47,224	0
<b>80.</b> Tax liabilities	73,056,614	47,015,667
<i>a) current</i>	30,885,193	35,796,523
<i>b) deferred</i>	42,171,421	11,219,144
<b>100.</b> Other liabilities	33,563,876	25,370,107
<b>110.</b> Employee severance indemnities	716,829	704,718
<b>120.</b> Provisions for risks and charges:	4,657,093	3,377,133
<i>a) pension funds and similar obligations</i>	3,952,350	2,672,390
<i>b) other provisions</i>	704,743	704,743
<b>140.</b> Valuation reserves	4,034,924	4,218,569
<b>170.</b> Reserves	51,481,508	48,977,922
<b>190.</b> Share capital	130,900,000	130,900,000
<b>220.</b> Profit for the year	124,377,536	48,912,826
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>3,031,967,430</b>	<b>1,607,913,180</b>

## Consolidated Income Statement

Item	2014	2013
10. Interest and similar income	252,550,454	154,642,788
20. Interest and similar expenses	(44,239,657)	(53,644,270)
<b>30. Net interest margin</b>	<b>208,310,797</b>	<b>100,998,518</b>
40. Fee and commission income	9,444,411	10,272,469
50. Fee and commission expenses	(1,205,443)	(1,108,089)
<b>60. Net fees and commissions</b>	<b>8,238,968</b>	<b>9,164,380</b>
80. Gains/losses on trading	496,971	1,701,144
90. Fair value adjustments in hedge accounting	(7,378)	0
100. Gains/losses on disposal/repurchase of: a) receivables and loans b) available-for-sale financial assets c) held-to-maturity financial assets d) financial liabilities	953,391	0
<b>120. Operating income</b>	<b>217,992,749</b>	<b>111,864,042</b>
130. Impairment losses/reversals on: a) receivables and loans b) available-for sale financial assets c) held-to-maturity financial assets d) other financial transactions	43,395	(1,136,173)
<b>140. Net profit from banking activities</b>	<b>218,036,144</b>	<b>110,727,869</b>
<b>170. Net profit from financial and insurance activities</b>	<b>218,036,144</b>	<b>110,727,869</b>
180. Administrative expenses: a) personnel costs b) other administrative expenses	(14,828,301) (21,125,921)	(13,227,085) (17,050,549)
190. Net provisions for risks and charges	(1,279,960)	(733,574)
200. Net adjustments to/writebacks on property, plant and equipment	(1,053,239)	(1,217,256)
210. Net adjustments to/writebacks on intangible assets	(689,285)	(571,938)
220. Other operating income/expenses	7,032,444	6,609,129
<b>230. Operating expenses</b>	<b>(31,944,263)</b>	<b>(26,191,273)</b>
<b>280. Profit before tax from continuing operations</b>	<b>186,091,881</b>	<b>84,536,596</b>
290. Income taxes on profit from continuing operations	(61,714,345)	(35,623,770)
<b>300. Profit after tax from continuing operations</b>	<b>124,377,536</b>	<b>48,912,826</b>
<b>320. Profit for the year</b>	<b>124,377,536</b>	<b>48,912,826</b>
<b>340. Profit for the year attributable to owners of the parent</b>	<b>124,377,536</b>	<b>48,912,826</b>

## Consolidated Statement of Comprehensive Income

in euros

Item	2014	2013
<b>10. Profit for the year</b>	<b>124,377,536</b>	<b>48,912,826</b>
<b>Other comprehensive income that will not be reclassified subsequently to the income statement, net of tax</b>		
<b>20. Property, plant and equipment</b>		
<b>30. Intangible assets</b>		
<b>40. Defined benefit plans</b>	783	(764)
<b>50. Non-currents assets classified as held for sale</b>		
<b>60. Portion of valuation reserves from investments accounted for using the equity method</b>		
<b>Other comprehensive income that will be reclassified subsequently to the income statement, net of tax</b>		
<b>70. Hedges of net investments in foreign subsidiaries</b>		
<b>80. Exchange differences</b>		
<b>90. Cash flow hedges</b>	(26,669)	
<b>100. Available-for-sale financial assets</b>	237,834	396,357
<b>110. Non-currents assets classified as held for sale</b>		
<b>120. Portion of valuation reserves from investments accounted for using the equity method</b>		
<b>130. Total Other comprehensive income, net of tax</b>	<b>211,948</b>	<b>395,593</b>
<b>140. Comprehensive income (items 10+130)</b>	<b>124,589,484</b>	<b>49,308,419</b>
<b>150. Attributable to non-controlling interests</b>		
<b>160. Attributable to owners of the parent</b>	<b>124,589,484</b>	<b>49,308,419</b>

## Consolidated Statement of Changes in Consolidated Equity

For the year ended December 31, 2014

	Opening balance 12.31.2013	Adjustments to opening balance	Opening balance 01.01.2014	Appropriation of prior year profit		Change in equity during the year								Equity attributable to the owners of the parent 12.31.2014	Equity attributable to non-controlling interests 12.31.2014
				Reserves	Dividends and other appropriations	Change in reserves	Equity transactions						Comprehensive income year 2014		
							New shares issue	Purchase of treasury shares	Payment of extr. dividends	Change in equity instruments	Derivatives on treasury shares	Stock options			
Share capital:															
- ordinary shares	130,900,000		130,900,000												130,900,000
- other shares															
Share premium															
Reserves:															
- income reserves	50,595,778		50,595,778	2,502,826		761									53,099,365
- other reserves	(1,617,853)		(1,617,853)			(4)									(1,617,857)
Valuation reserves	4,218,570		4,218,570			(183,645)									4,034,924
Equity instruments															
Treasury shares															
Profit for the year	48,912,826		48,912,826	(2,502,826)	(46,410,000)								124,377,536		124,377,536
<b>Profit attributable to owners of the parent</b>	<b>233,009,321</b>		<b>233,009,321</b>		<b>(46,410,000)</b>	<b>(182,888)</b>							<b>124,377,536</b>		<b>310,793,968</b>
Profit attributable to non-controlling interests															



in euros

**For the year ended December 31, 2013**

	Opening balance 12.31.2012	Adjustments to opening balance	Opening balance 01.01.2013	Appropriation of prior year profit		Change in equity during the year								Equity attributable to the owners of the parent 12.31.2013	Equity attributable to non-controlling interests 12.31.2013
				Reserves	Dividends and other appropriations	Change in reserves	Equity transactions						Comprehensive income year 2013		
							New shares issue	Purchase of treasury shares	Payment of extr. dividends	Change in equity instruments	Derivatives on treasury shares	Stock options			
Share capital:															
- ordinary shares	130,900,000		130,900,000												130,900,000
- other shares															
Share premium															
Reserves:															
- income reserves	47,696,497		47,696,497	2,899,281											50,595,778
- other reserves	(1,355,276)		(1,355,276)	(262,577)											(1,617,853)
Valuation reserves	3,822,976		3,822,976			395,594									4,218,570
Equity instruments															
Treasury shares															
Profit for the year	56,186,704		56,186,704	(2,636,704)	(53,550,000)								48,912,826		48,912,826
<b>Profit attributable to owners of the parent</b>	<b>237,250,901</b>		<b>237,250,901</b>		<b>(53,550,000)</b>	<b>395,594</b>							<b>48,912,826</b>		<b>233,009,321</b>
Profit attributable to non-controlling interests															

## Consolidated Statement of Cash Flows Indirect Method

in euros

	2014	2013
<b>A. OPERATING ACTIVITIES</b>		
<b>1. Operations</b>	<b>127,356,625</b>	<b>51,917,821</b>
- profit for the year (+/-)	124,377,536	48,912,826
- gains/losses on financial assets held for trading and on financial assets/ liabilities at fair value through profit or loss (-/+)		
- gains/losses on hedging activities (-/+)		
- impairment losses/reversals (+/-)	(43,395)	1,136,173
- net adjustments to/writebacks on property, plant and equipment and intangible assets (+/-)	1,742,524	1,774,849
- net provisions and other expenses/revenues (+/-)	1,279,960	93,973
- non cashed net premiums (-)		
- other not collected income and expenses from insurance activities (-/+)		
- unpaid indirect taxes and duties (+)		
- net losses/reversals of disposal groups of assets held for sale, net of tax effect (+/-)		
- other changes (+/-)		
<b>2. Cash flows from/used by financial assets</b>	<b>1,423,373,078</b>	<b>181,971,467</b>
- financial assets held for trading	(4,877)	4,877
- financial assets at fair value through profit or loss		
- available-for-sale financial assets	288,322,966	81,596,222
- due from banks: on demand	(228,218,197)	184,962,784
- due from banks: other receivables		
- due from customers	418,335,913	(104,506,741)
- other assets	944,937,274	19,914,325
<b>3. Cash flows from/used by financial liabilities</b>	<b>1,344,962,169</b>	<b>184,609,761</b>
- due to banks: on demand	166,057,039	67,451,120
- due to banks: other amounts due		
- due to customers	995,354,545	43,463,884
- securities issued	149,785,852	70,000,000
- financial liabilities held for trading	(501,848)	(1,696,267)
- financial liabilities at fair value through profit or loss		
- other liabilities	34,266,580	5,391,024
<b>Net cash flows from/used in operating activities</b>	<b>48,945,715</b>	<b>54,556,114</b>
<b>B. INVESTING ACTIVITIES</b>		
<b>1. Cash flows from</b>	<b>0</b>	<b>0</b>
- disposals of investments		
- dividends collected from investments		
- sales of held-to-maturity financial assets		
- sales of property, plant and equipment		
- sales of intangible assets		
- disposals of subsidiaries and business segments		
<b>2. Cash flows used in</b>	<b>(2,533,666)</b>	<b>(1,007,368)</b>
- purchases of investments	0	0
- purchases of held-to-maturity financial assets		
- purchases of property, plant and equipment	(913,497)	(611,253)
- purchases of intangible assets	(1,620,169)	(396,115)
- purchases of subsidiaries and business segments		
<b>Net cash flows from/used in investing activities</b>	<b>(2,533,666)</b>	<b>(1,007,368)</b>
<b>C. FINANCING ACTIVITIES</b>		
- issues/purchases of treasury shares		
- issues/purchases of equity instruments		
- payment of dividends and other	(46,410,000)	(53,550,000)
<b>Net cash flows from/used in financing activities</b>	<b>(46,410,000)</b>	<b>(53,550,000)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,049</b>	<b>(1,254)</b>

## Reconciliation

*in euros*

	2014	2013
Cash and cash equivalents at beginning of the year	1,164	2,418
Change in cash and cash equivalents from/used during the year	2,049	(1,254)
Cash and cash equivalents: effect of exchange rate differences		
<b>Cash and cash equivalents at end of the year</b>	<b>3,213</b>	<b>1,164</b>

## Notes to the Consolidated Financial Statements

The notes are arranged as follows:

- Part A - Accounting Policies
- Part B - Consolidated Balance Sheet
- Part C - Consolidated Income Statement
- Part D - Consolidated Comprehensive Income
- Part E - Information on Risks and related Risk Management Policies
- Part F - Consolidated Equity
- Part G - Business Combinations
- Part H - Related Party Transactions
- Part L - Segment Reporting

### Part A - Accounting Policies

#### A.1 – GENERAL CRITERIA

##### ***Section 1 - Statement of compliance with international financial reporting standards***

The consolidated financial statements have been prepared in accordance with the international accounting principles (IAS/IFRS) issued by the IASB, approved by the European Commission as established in EC Regulation 1606 of July 19, 2002, which regulates the coming into force of IAS/IFRS, as well as the relative interpretations (IFRIC), approved by the European Commission and in effect at the end of the reporting period.

IFRS have been applied by complying with the “systematic framework” for the preparation and the presentation of the financial statements with particular reference to the fundamental principle of substance over form and the concept of relevance or significance of the information.

##### ***Section 2 - Basis of preparation***

The consolidated financial statements at December 31, 2014 have been prepared in accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – “*The Financial Statements of Banks: layout and preparation*”, and subsequent updates.

The consolidated financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements and are accompanied by the directors’ report on operations.

The financial statements agree with the accounting records.

In conformity with art. 5, paragraph 2 of Legislative Decree 38 of February 28, 2005, the financial statements are expressed in euros, which is the functional currency.

The notes are prepared in thousands of euros, unless otherwise indicated, and present comparative figures for the prior year.

The components of the financial statements are measured in accordance with the general criteria of prudence, the going-concern concept and on the accrual basis.

### ***Significant accounting policies***

The most significant accounting policies are described below in accordance with IAS 1 (paragraphs 108 to 115) and the Instructions contained in Bank of Italy Circular 262 of December 22, 2005, and subsequent updates.

### ***New accounting principles***

Subsequent to the endorsement procedure carried out by the European Commission, beginning January 1, 2013, the following amendments or improvements to the international financial reporting standards IAS/IFRS were taken into account in these financial statements, if applicable. A summary is presented as follows:

- **IAS 1:** the purpose of the amendments is to clarify the presentation of the components of other comprehensive income. In particular, the amendment requires that items in other comprehensive income that may be reclassified subsequently to the income statement, under certain conditions (sale, impairment), must be shown separately.
- **IAS 19:** no longer allows the deferral of actuarial gains and losses under the corridor method, now requiring their immediate recognition in comprehensive income for the year.
- **IFRS 13:** sets out in a single IFRS a framework for measuring fair value and provides a complete guideline on how to measure the fair value of financial and non-financial assets and liabilities.
- **IFRS 7:** requires further quantitative information about financial instruments that are offset.

Beginning January 1, 2014, the following amendments came into effect and mainly refer to aspects of disclosure:

- **IAS 32:** clarifies of the disclosure required in the application of offsetting criteria for financial assets and financial liabilities.
- **IAS 36:** sets out the disclosure of information relating to the impairment of non-financial assets (particularly goodwill).
- **IAS 39:** defines the specific conditions necessary for hedge accounting to continue in a situation where a derivative, defined as a hedging instrument, is novated as a result of laws or regulation. Previously, every change would have resulted in the discontinuation of hedge accounting.
- **IFRS 10:** builds on the concept of control for purposes of determining the scope of consolidation.

### ***Section 3 - Principles and scope of consolidation***

The principles adopted by the Group in determining the scope of consolidation and the relative principles of consolidation are described in the following paragraphs.

### ***Subsidiaries***

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Generally, control exists when the company holds, directly or indirectly, more than half of the voting rights, considering also exercisable or convertible potential voting rights.

Subsidiaries also include special purpose entities in which the Group, in substance, holds the majority of the risks and rewards of their activities or those over which it exercises control. The existence of an equity investment in these entities is not relevant for this purpose.

All subsidiaries are consolidated line-by-line from the date the Group obtains control until such control ceases.

The consolidated financial statements and the notes thereto prepared by the companies consolidated line-by-line are drawn up in accordance with IAS/IFRS for purposes of inclusion in the consolidated financial statements.

The principles applied in line-by-line consolidation are the following:

- assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and, non-controlling interests, if applicable, in equity and in the profit (loss) for the year are disclosed separately in equity and in the consolidated income statement.
- significant gains and loss, including the related tax effects, arising from transactions between companies consolidated line-by-line and not realized with third parties are eliminated, except for the losses that are not eliminated whenever the transaction indicates an impairment of the transferred asset. Also eliminated, if significant, are reciprocal receivables and payables, revenues and expenses as well as financial income and expenses.

#### ***1. Investments in subsidiaries consolidated line-by-line***

<b>Held by</b>	<b>Headquarters</b>	<b>Type of relations.</b>	<b>Investment relationship</b>		
			<b>Held by</b>	<b>Holding %</b>	<b>Voting Rights %</b>
<b>A. Company</b>					
<b>A.1 Line-by-line</b>					
1. Farmafactoring España S.A.	Madrid C/ Luchana 23	1	Banca Farmafactoring	100%	100%
2. FF Finance S.r.l.	Turin - Corso Re Umberto 8	4	Banca Farmafactoring	0%	0%
3. Farmafactoring SPV I S.r.l.	Milan Via Statuto 10	4	Banca Farmafactoring	0%	0%
4. Farmafactoring SPV II S.r.l.	Milan Via G. Fara 26	4	Banca Farmafactoring	0%	0%
<b>A.2 Companies consolidated proportionally</b>					

#### **Section 4 - Subsequent events**

With regard to the securitization structured by Banca IMI, on January 9, 2015 an Amendment Agreement was signed which brought forward the end of the revolving phase to January 26, 2015. At January 31, 2015 the outstanding Senior Notes amount to €0.3 million. Completion of the repayment of the notes is expected during February 2015 and the unwinding of the transaction by the end of the first quarter of 2015.

During February 2015 the pool loan arranged by Intesa San Paolo, for an original amount of €255 million and outstanding for €215 million at December 31, 2014, was fully repaid in advance of the due date in June 2015.

Following the letter sent on November 3, 2014 concerning Banca Farmafactoring's intention to establish a branch in Spain, on January 30, 2015 Bank of Italy informed Banca Farmafactoring that it had proceeded to notify the Spanish regulatory authorities of this initiative, in accordance with provisions in force on the subject (Circular 285 of December 17, 2013, Title I, Chapter 5, Section II).

On February 4, 2015 Bank of Italy began an inspection, pursuant to articles 54 and 68 of Legislative Decree 385 of September 1, 1993. The last inspection of Farmafactoring S.p.A. (when it was an intermediary under art. 107) dates back to 2008.

There have been no events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended December 31, 2014.

#### **Section 5 - Other matters**

##### ***Use of estimates and assumptions in the preparation of the financial statements***

In compliance with IFRS, the preparation of the financial statements at December 31, 2014 requires estimates and assumptions by management. These involve the use of available information and the adoption of subjective judgments based also upon historical experience in order to formulate reasonable assumptions for the recognition of operating events. These estimates and assumptions may vary from one year to the next and, hence, the actual results recorded in the financial statements may differ significantly owing to changes in the subjective judgments utilized. Estimates and assumptions are reviewed regularly. Any changes resulting from such reviews are recognized in the period in which the review was carried out, provided the change refers only to that period. If the revisions refer to both current and future periods, the change is recognized in both the current and future periods accordingly.

Uncertainties in estimates are mainly inherent in the measurement of:

- degree of recoverability and estimated collection times for interest on late payments due on the purchase of non-recourse receivables, to which the Bank is entitled, based upon an analysis of company historical data;
- measurement of impairment losses on receivables and, in general, on other financial assets;
- fair value estimation of financial instruments to be used for disclosure purposes;
- fair value of financial instruments not listed in active markets, using estimation models;
- any impairment of investments;
- employee benefit obligations based on actuarial assumptions and provisions for risks and charges;
- recoverability of deferred tax assets.

The description of the accounting policies adopted for the main aggregates of the financial statements at December 31, 2014 provides the information needed to identify the major assumptions and subjective judgments used in the preparation of the financial statements.

#### **Audit**

The shareholders' meeting held on May 3, 2012 appointed PricewaterhouseCoopers S.p.A. for the audit of the financial statements for the nine years from 2012 to 2020, pursuant to the provisions of art. 2409 *bis* of the Italian Civil Code and Legislative Decree 39/2010.

## **A.2 - INFORMATION ON THE MAIN ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Information is provided below on the accounting policies adopted in the preparation of the financial statements with reference to the criteria for the recognition, classification, measurement and derecognition of the various items of the assets and liabilities and revenues and expenses.

### **A.2.1 Financial assets held for trading**

#### **Recognition**

Financial assets held for trading are initially recognized at the settlement date at fair value, which usually corresponds to the amount paid, excluding transaction costs and income, which are recognized immediately in the income statement even if directly attributable to the financial assets. Trading book derivatives are recognized at the trade date.

#### **Classification**

Financial assets held for trading include financial instruments used to hedge fluctuations in market interest rates as compared with the fixed rate implicit in non-recourse fees and commissions. Derivatives are recognized as assets/liabilities held for trading in accordance with IAS 39 although operationally they are considered as hedges of interest rate risk relating to activities for the purchase of non-recourse receivables.

#### **Measurement**

Financial assets held for trading are adjusted to the relative fair value.

If the fair value of a financial asset becomes negative, it is recognized as a financial liability.

Since these instruments are not listed in an active market, the fair value is determined using estimation methods and valuation models which take into account all the risk factors related to the instruments and are based on data obtained in the market where available. Accordingly, considering that the inputs used for the measurement of financial assets held for trading are different from the quoted prices but observable directly or indirectly in the market, in accordance with Bank of Italy Circular 262, the fair value hierarchy is "Level 2".

#### **Derecognition**

Financial assets held for trading are derecognized when the contractual rights have expired and when, as a result of the sale, substantially all the risks and rewards relating to these financial assets are transferred.



## **A.2.2 Available-for-sale financial assets**

### **Recognition**

Available-for-sale financial assets are initially recognized at the settlement date at fair value, which usually coincides with the consideration on the transaction plus transaction costs and income directly attributable to the instrument.

### **Classification**

Available-for-sale financial assets are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit or loss. These assets are held for an indefinite period of time and can fulfill the need to provide liquidity or meet changes in interest rates, exchange rates and prices.

Available-for-sale financial assets can be money market securities, other debt instruments (including the host contract of hybrid instruments after the bifurcation of the embedded derivative) and equity instruments; included are shares held as minority investments that do not constitute controlling, joint or associate interests.

Available-for-sale financial instruments include principally government securities and the investment in Nomisma S.p.A., since it is not subject to "significant influence".

### **Measurement**

Available-for-sale assets in subsequent periods are measured at fair value, with the interest being recognized at amortized cost in the income statement. Gains or losses arising from changes in fair value are recognized in equity in item 140. "Valuation reserves" – except for losses due to impairment and exchange rate gains or losses on monetary items (debt instruments) which are recognized, respectively, under item 130.b) "Impairment losses/reversals on available-for-sale financial assets" and item 80. "Gains/losses on trading" respectively - until the financial asset is sold, at which time the cumulative gains and losses are recognized in the income statement under item 100.b) "Gains/losses on disposal/repurchase of available-for-sale financial assets".

Fair value changes recognized in item 140. "Valuation reserves" are also reported in the statement of comprehensive income.

Equity instruments (shares) not listed in an active market and whose fair value cannot be determined reliably due to the lack or unreliability of information for fair value measurement are measured at cost, at the last fair value reliably measured. The investment in Nomisma S.p.A. is accounted for at cost and tested for impairment.

If there is objective evidence of an impairment loss on an available-for-sale financial asset, the cumulative loss that was recognized directly in the equity item 140. "Valuation reserves" is removed from equity and recognized in the income statement under item 130.b) "Impairment losses/reversals on available-for-sale financial assets". For debt instruments, any circumstances indicating that the borrower/issuer is experiencing financial difficulties, such as to prejudice the collection of the principal or interest, constitute evidence of an impairment loss. The amount recorded in the income statement is the difference between the carrying amount (value at initial recognition net of any impairments already recognized in the income statement) and current fair value.

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be related objectively to an event such as an improvement in the debtor's creditworthiness occurring

after recognition of the impairment loss in the income statement, the impairment loss is reversed and the amount of the reversal is recognized in the same item of the income statement. The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized.

***Derecognition***

Available-for-sale financial assets are derecognized when the contractual rights expire and when, following a sale, substantially all the risks and benefits relating to the financial asset are transferred.

***A.2.3 Held-to-maturity financial assets******Recognition***

Held-to-maturity financial assets are recognized initially at fair value, which usually corresponds to the consideration paid plus transaction costs and income which are directly attributable to the acquisition or provision of the financial asset.

***Classification***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which there is the positive intention and ability to hold them to maturity. This type of instrument can be used for repurchase, loan or other temporary refinancing transactions.

As set out in IAS 39, a financial asset cannot be classified as held-for sale if, during the current or in the preceding two financial years, more than an insignificant amount of held-to-maturity investments are sold or reclassified before maturity.

***Measurement***

After initial recognition at fair value, held-to-maturity financial assets are measured at amortized cost using the effective interest method.

In the event of a sale or derecognition of a HTM financial asset, the difference between the carrying value of the asset and the amount received is recognized in the income statement under item 100.c) "Gains/losses on disposal/repurchase of held-to-maturity financial assets".

If there is objective evidence that a held-to-maturity investment is impaired, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset. The carrying amount of the asset is reduced accordingly and the loss is recognized in profit or loss under item 130.c) "Impairment losses/reversals on held-to-maturity financial assets".

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event such as an improvement in the debtor's creditworthiness occurring after recognition of the impairment loss in the income statement, the previously recognized impairment loss is reversed. The reinstatement cannot result in a carrying amount that exceeds what the amortized cost would have been had the impairment loss not been recognized. The amount of the reinstatement is recognized in the same item of the income statement.

Held-to-maturity investments cannot be hedged for other than the credit/non-performance risk.

### ***Derecognition***

Held-to-maturity financial assets are derecognized when the contractual rights expire and when, following a disposal, substantially all the risks and benefits relating to the financial asset are transferred.

If, during the financial year, more than an insignificant amount of held-to-maturity investments are sold or reclassified before maturity, the remaining held-to-maturity financial assets shall be reclassified as available-for-sale and no financial assets shall be classified as held-to-maturity investments for the two following financial years, unless the sales or reclassifications:

- are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after substantially all of the financial asset's original principal has been collected through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the reporting entity's control, is non-recurring and could not have been reasonably anticipated.

## **A.2.4 Receivables**

### ***Recognition***

Receivables are recognized initially at fair value, which usually corresponds to the consideration paid plus transaction costs and income which are directly attributable to the acquisition or provision of the financial asset, even though not yet settled.

Non-recourse receivables:

- a) non-recourse receivables purchased, with the transfer of substantially all the risks and rewards of ownership, are initially recognized at fair value, represented by the face value of the receivable net of fees and commissions charged to the assignor;
- b) receivables purchased for amounts below face value are recognized for the amount effectively paid at the time of purchase.

### ***Classification***

Receivables are non-derivative financial assets due from customers and banks with fixed or determinable payments that are not quoted in an active market. Receivables are recognized on the date of signing the contract, which normally coincides with the date of disbursement to the counterparty.

All purchases of non-recourse receivables refer to factoring transactions pursuant to Law 52/91. There were no transactions for purchases of impaired receivables.

The amounts due from banks refer mainly to current account transactions generated by liquidity from collections received in the final days of the year, pending clearance, relating to both "receivables management" and "management of non-recourse receivables purchased".

Receivables from customers comprise principally receivables from debtors relating to factoring activities and interest on late payments, calculated on non-recourse receivables purchased ac-

ording to existing law (Legislative Decree 231/2002 "Implementation of Directive 2000/35/EC on combating late payment in commercial transactions").

***Measurement of purchases of non-recourse receivables***

Purchases of non-recourse receivables, subsequent to initial recognition, are measured at amortized cost determined on the basis of the present value of estimated future cash flows.

The new due date of such receivables is the expected collection date determined at the time of quotation and formalized with the assignor in the sales contract.

Performing receivables include receivables due from customers which, although past due more than 90 days from the face due date, show no objective indication of impairment at an individual level.

Although the receivables are due almost entirely from the Public Administration, as in previous years, at the date of the preparation of the interim and year-end financial statements, the Bank, in accordance with IAS 39, carried out a collective impairment test of performing receivables in order to correctly monitor the intrinsic risk of the portfolio even in the absence of individual impairment indicators.

This measurement is performed using, as a basis, the risk parameters of Probability of Default (PD), and Loss Given Default (LGD) for potential loss.

The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs / AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong.

With regard to receivables from central administrations of the Italian State, the rating assigned to the Italian State was used.

In order to determine the LGD, the Bank assumed the value proposed by the "Basel Accord" for credits not covered by real guarantees from sovereign states, companies and banks, equal to 45% of the PD found.

Under IAS 39, and for the purposes of an analytical evaluation, an assessment of the financial assets classified in receivables was carried out in order to identify any objective impairment of individual positions.

Such "non-performing" receivables, which were assigned an impaired, doubtful or restructured status in accordance with Bank of Italy existing regulations consistent with IAS standards currently in effect, are measured at estimated realizable value by recognizing any impairment losses determined on an individual basis, equal to the difference between the carrying amount of the receivable at the time of measurement (amortized cost) and the present value of estimated future cash flows, calculated by applying the original effective interest rate. The cash flows take into account:

- estimated recovery times;
- estimated realizable value of any guarantees;
- costs that it is believed will be incurred for the recovery of receivables;
- any reinstatements.

Cash flows of receivables which are expected to be recovered in the short term (up to 12 months – short-term receivables) are not discounted to present value.

The impairment loss on a receivable is reversed and the receivable is reinstated to its original carrying amount when the reasons for the impairment no longer exist.

### ***Measurement of interest on late payments***

Pursuant to IAS 18, interest income should be recognized in the income statement only if it is probable that positive cash flows will flow to the entity and the amount can be measured reliably.

Until December 31, 2013, the Bank, not having reliable databases analyzing the amount and recoverability times, did not record accrued interest on late payments (a legal right) on receivables in portfolio not yet invoiced to the debtors and completely wrote off the receivables for interest on late payments invoiced and not yet collected through a specific provision account recorded as a deduction from the asset. When the interest on late payments was actually collected, this writeoff was reversed and the interest on late payments was credited to the income statement on the basis of the percentage of recovery effectively realized.

Beginning in the year 2014, the Bank acquired analysis instruments which enabled it to obtain a time series of data such as to permit the calculation of a reliable estimate of the recoverable amount of interest on late payments and the estimated collection times. Accordingly, beginning with the financial statements for the year ended December 31, 2014, the Bank has considered that it is probable that a portion of the receivables for interest on late payments will be collected to the extent determined by the time series analysis relating to the amounts and the collection times.

The weighted average trend of the collection percentages over the years, forming the time series considered, is more than 40% and, therefore, prudently, this percentage was used for the estimate of the amount of interest on late payments that will be collected in the future and which is recorded under receivables.

In order to include the estimates of interest on late payments considered recoverable in the value of receivables, a modification was made to the calculation model of amortized cost which now also includes, besides the cash flows relating to the principal amount of the receivables, the cash flows relating to interest on late payments deemed recoverable and the related estimates of collection times.

The change in the method of estimating interest on late payments led to the recognition in 2014 of the effects of such change, both on the receivables recognized in 2014 and on the receivables recorded in past years. This resulted in the recognition of very significant non-recurring income in the income statement. In future years, the income statement will only include the recognition of interest on late payments on an accrual basis for the individual years of reference.

Since this is an estimation process, although structured and reliable, there is the risk that the percentages of future collection of interest on late payments will not correspond to the estimated percentages or that in future years, after reviewing the time series, the estimate of expected cash flows will require modification and, as a result, the effects of such changes will be recorded in the income statement for the year, also for the receivables recorded in prior years.

### ***Derecognition***

Receivables are derecognized when they are considered unrecoverable.

Receivables sold are derecognized only when the sale transfers all the risks and rewards relating to such receivables.

When, instead, the risks and rewards are retained, the receivables sold will continue to be recorded in the assets of the financial statements until, legally, ownership of the receivables is actually transferred.

### **A.2.6 Hedging transactions**

#### **Recognition**

Derivative financial instruments designated as hedges are initially recognized at their fair value.

#### **Classification**

Hedging transactions are aimed at reducing potential losses attributable to specific types of risks. The possible types of hedges are as follows:

- fair value hedge: a hedge of the exposure to changes in the fair value of assets, liabilities or other investments in the balance sheet;
- cash flow hedge: a hedge of the exposure to variability in cash flows attributable to recognized assets or liabilities in the financial statements.

Instruments which can be used for hedging are derivative contracts (including purchased options) and non-derivative financial instruments, for hedges of exchange rate risk only. Derivative hedging instruments are classified in the balance sheet respectively in item 80. "Hedging derivatives" in the assets or 60. "Hedging derivatives" in the liabilities, according to whether there is a positive or negative fair value at the balance sheet date.

The Bank uses interest rate swaps (IRS) as instruments to hedge the interest rate applied to its funding.

#### **Measurement**

Derivative hedging instruments are measured subsequently at fair value.

When a financial instrument is designated as a hedge, the Bank formally documents the relationship between the hedging instrument and the hedged item. Consequently, the Bank assesses the hedging instrument's effectiveness, at inception and during its life, in offsetting the exposure to changes in the hedged item's fair value. A hedge is considered effective if, at the inception of the hedge and during its life, the changes in the hedged item's fair value or cash flows are offset by the changes in the hedging derivative's fair value.

Therefore the hedge is regarded as effective by a comparison of the above changes, taking into account the risk management objective when the hedge was put into place. It is effective (within a range of 80-125 percent) when the estimated and effective changes in fair value or cash flows of the hedging instrument offset almost entirely the changes in the hedged item, for the element of risk hedged. The hedge's effectiveness is assessed at each balance sheet date or interim date using:

- prospective tests: which justify the application of hedge accounting, since they indicate its expected effectiveness;
- retrospective tests: which indicate the degree of effectiveness of the hedge reached in the period to which they refer. In other words, they measure to what extent the effective results differ from the perfect hedge.

Hedge accounting is discontinued in the following cases: **a)** the hedging relationship ceases or is no longer highly effective; **b)** the hedged item is sold or is repaid; **c)** early revocation of the designation; **d)** the hedging instrument expires or is sold, terminated or exercised.

Accounting for gains and losses arising from fair value changes depends on the type of hedge:

- fair value hedge: changes in fair value of the hedged item referring only to the hedged risk is recorded in the income statement, the same as the fair value change of the derivative instrument; any difference, which represents the partial ineffectiveness of the hedge, consequently results in the net gain or loss.

- cash flow hedge: changes in fair value of the derivative are recognized in equity, for the effective portion of the hedge, and are recognized in the income statement only when, with regard to the hedged item, there is a fluctuation in the cash flows to be offset or the hedge is ineffective.

The ineffectiveness of the hedge is represented by the difference between the change in fair value of the hedging instrument and the change in fair value of the hedged item, both shown in the income statement.

Allocation of the gains or losses to the pertinent items of the income statement is made on the basis of the following:

- differences accrued on the derivative instruments hedging interest rate risk (in addition to the interest of the hedged positions) are allocated to "Interest and similar income" or "Interest and similar expenses".

- gains and losses arising from the measurement of hedging derivative instruments designated as a fair value hedge are allocated to the item "Fair value adjustments in hedge accounting".

- gains and losses arising from the measurement of a derivative designated as a cash flow hedge, for the effective portion, are allocated to a specific equity valuation reserve "Cash flow hedge reserve", net of the deferred tax effect. For the ineffective portion, the gains and losses are recorded in the income statement in the item "Fair value adjustments in hedge accounting".

### ***Derecognition***

The Bank ceases to consider transactions as hedging relationships, and account for them as such, if the derivative designated as a hedge is no longer effective.

Furthermore the hedged financial assets and liabilities are eliminated when there are no longer contractual rights (e.g. expiration of the contract, early closing exercised according to the contractual clauses – unwinding) to receive cash flows relating to the financial instruments, hedged assets/liabilities and/or derivative designated as a hedge or when the financial assets/liabilities are sold thus substantially transferring all the risks and benefits connected thereto.

## ***A.2.8 Property, plant and equipment***

### ***Recognition***

Property, plant and equipment is recognized initially at cost, including all directly attributable costs to bring the asset to use (transaction costs, professional fees, direct transport costs incurred in bringing the asset to the assigned location, installation costs, dismantling costs).

Costs incurred subsequently are added to the carrying amount or recognized as a separate asset only when it is probable that there will be future economic benefits in excess of those initially foreseen and the cost can be reliably measured. Other expenses incurred at a later date (e.g. ordinary maintenance costs) are recognized in the year incurred in the income statement in item 180.b) "Other administrative expenses", if they refer to assets used in the business.

**Classification**

Property, plant and equipment include movable property and buildings, plant, other machinery and equipment held for use by the Bank which can be used for more than one period.

**Measurement**

After initial recognition, property, plant and equipment is recorded at cost net of accumulated depreciation and impairment losses.

Such assets are depreciated on a straight-line basis over their estimated useful life, as follows:

buildings	maximum 5 years
furniture	maximum 9 years
electronic systems	maximum 14 years
other	maximum 20 years

Land and buildings are treated separately for accounting purposes, even if purchased together. Land is not depreciated since it usually has an indefinite useful life.

The estimated useful life of property, plant and equipment is reviewed at the end of each reporting period and takes into account the conditions of use of the assets, maintenance conditions, expected obsolescence etc. and, if expectations differ from previous estimates, the depreciation rate for the current and subsequent years is adjusted.

At the date of IFRS first-time adoption (January 1, 2005), the properties used by the Bank in its business (Milan and Rome) were measured at fair value which then became the new cost from that date.

If there is objective evidence that an asset has been impaired the carrying amount of the asset is compared with its recoverable amount, equal to the higher of its fair value less costs to sell and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement in item 200. "Net adjustments to/writebacks on property, plant and equipment".

If the value of a previously impaired asset is reinstated, the new carrying amount cannot exceed the net carrying amount of the asset that would have resulted had no impairment loss been recognized in prior years.

**Derecognition**

An item of property, plant and equipment is derecognized on disposal or when future economic benefits are not expected from its use or sale in the future and any difference between sale proceeds or recoverable amount and carrying amount is recognized in the income statement in item 270. "Gains/losses on disposal of investments".



## **A.2.9 Intangible assets**

### **Recognition**

Intangible assets are recognized at acquisition cost, i.e. including costs incurred to bring the asset into use, less accumulated amortization and impairment losses.

### **Classification**

Intangible assets are identifiable non-monetary assets without physical substance which are expected to be used for more than one period, controlled by the Group and from which future economic benefits are probable.

Intangible assets mainly refer to software.

### **Measurement**

Intangible assets with a finite life are amortized on a straight-line basis over their estimated useful life, usually as follows:

Software:	maximum 3 years
Other intangible assets:	maximum 5 years

If there is objective evidence that an asset has been impaired the carrying amount of the asset is compared with its recoverable amount, equal to the higher of its fair value less costs to sell and its value in use, i.e., the present value of future cash flows expected to originate from the asset. Any adjustments to the value of the asset are recognized in the income statement in item 210. "Net adjustments to/writebacks on intangible assets".

If the value of a previously impaired intangible asset is reinstated, the new carrying amount cannot exceed the net carrying amount of the asset that would have resulted had no impairment loss been recognized in prior years.

### **Derecognition**

An intangible asset is derecognized on disposal or when future economic benefits are not expected from its use or sale in the future and any difference between sale proceeds or recoverable amount and carrying amount is recognized in the income statement in item 270. "Gains/losses on disposal of investments".

## **A.2.11 Current and deferred taxes**

### **Recognition and measurement**

Income taxes are calculated in accordance with enacted tax legislation.

The tax charge consists of the total amount of current and deferred income taxes included in arriving at the result for the period.

Current income taxes correspond to the amount of income taxes calculated on the taxable income for the year.

Deferred tax liabilities correspond to the amount of income taxes due in future years on taxable temporary differences. Deferred tax assets correspond to the amount of income taxes recoverable in future years and refer to deductible temporary differences.

The tax amount of an asset or a liability is the value attributed to that asset or liability according to enacted tax legislation.

A deferred tax liability is recognized on all taxable temporary differences as set forth in IAS 12.

A deferred tax asset is recognized on all deductible temporary differences as set forth in IAS 12 only to the extent that it is probable that there will be future taxable income against which the deductible temporary difference can be utilized.

Deferred tax assets and liabilities are calculated on the basis of enacted tax rates in the year in which the asset will be recovered or the liability will be settled.

Current and deferred tax charges and benefits are recognized in the income statement.

#### ***A.2.12 Provisions for risks and charges***

##### ***Recognition and measurement***

Provisions for risks and charges include costs and expenses of a determinate nature considered certain or probable which, at the balance sheet date are uncertain as to amount or as to the date on which they will arise.

Provisions for risks and charges are only made when:

- there is a present obligation as a result of a past event;
- it is more likely than not that an outflow of resources will be required to settle the obligation;
- the amount of the obligation can be estimated reliably.

The provisions for risks and charges include, in accordance with IAS 19, the measurement of post-employment benefits.

The measurement of such obligations in the balance sheet, where necessary, is made according to actuarial calculations by determining the charge at the measurement date on the basis of demographic and financial assumptions.

##### ***Derecognition***

Derecognition occurs when the obligation or contingent liability which generated the recognition of a provision is extinguished.

#### ***A.2.13 Payables and securities issued***

##### ***Recognition***

Payables and securities issued are recognized on the settlement date initially at fair value, which normally corresponds to the consideration received less transaction costs directly attributable to the financial liability.

##### ***Classification***

The items "Due to banks", "Due to customers" and "Securities issued" are used for all forms of third-party funding other than trading liabilities or those valued at fair value through profit and loss.

### **Measurement**

The amounts due to banks and customers are measured at nominal amounts since they are generally due within 18 months and in consideration of the non-significance of the effects of the application of the amortized cost method.

Securities issued are measured at amortized cost using the effective interest method.

### **Derecognition**

Financial liabilities are derecognized when the obligation specified in the contract is extinguished or following a substantial change in the contractual terms of the liability.

The derecognition of securities issued occurs also in the event of the repurchase of securities previously issued, even though they are destined for subsequent sale. The gains and losses on the recognition of the repurchase as an extinguishment are recognized in the income statement when the repurchase price of the bonds is higher or lower than their carrying amount. Subsequent disposal of own bonds on the market is considered as an issue of new debt.

## **A.2.17 Other information**

### **Employee severance indemnities**

#### **Recognition and measurement**

As a result of the new provisions introduced by Law 296 of 2006, the calculation of employee severance indemnities accrued up to December 31, 2006 (which remains with the company) is calculated by estimating the remaining service life of the employees, by individual person or homogeneous groups, on the basis of demographic assumptions:

- projecting the employee severance indemnity already accrued, on the basis of demographic assumptions, in order to estimate the time of termination of employment;
- discounting to present value, at the measurement date, the indemnity accrued to December 31, 2006 on the basis of financial assumptions.

IAS 19 revised no longer permits the deferral of actuarial gains and losses under the corridor method, now requiring their immediate recognition in comprehensive income for the year.

The employee severance indemnity accruing from January 1, 2007, since it must be transferred to the INPS fund or supplementary pension funds, takes on the characteristics of a "defined contribution plan" since the employer's obligation ceases once payment is made and the contribution is recorded in the income statement on the accrual basis.

### **Recognition of revenues**

The general criterion for the recognition of revenue components is the accrual basis. Specifically:

- interest income on receivables from customers is recognized at the effective return; similarly, commissions charged to the assignor for the purchase of non-recourse receivables are recognized as transaction revenues and are therefore part of the effective return of the receivable.

- Until the previous year, the Bank did not record accrued interest on late payments (a legal right) on receivables in portfolio not yet invoiced to the debtors and completely wrote off the receivables for interest on late payments invoiced to the debtors through a specific provision account recorded as a deduction of the asset given that it was unable to reliably estimate the recoverability of the interest and the requirements for recognition in the financial statements set out in IAS 18 were not complied with. When the interest on late payments was actually collected, the income statement was credited for the amount. During 2014, the Bank acquired analysis instruments which enabled it to obtain a time series of data such as to permit the calculation of a reliable estimate of the probable amount of interest on late payments that would be recovered. Accordingly, beginning with the financial statements for the year ended December 31, 2014, the Bank applied the percentage of recoverability to receivables for interest on late payments determined following the above time series analysis, instead of completely writing off the receivables as in previous years.
- Interest income on securities classified in the available-for-sale and held-to-maturity portfolios and interest expense, relating to securities issued by the Bank, are recognized at amortized cost, that is, by applying to the nominal value of the securities the effective interest rate of return (IRR), determined by the difference between the coupon rate of interest and the purchase price of the same security and taking into account also any discount on issue. The interest thus calculated is recorded in the income statement pro rata over the duration of the financial asset or liability.
- Commissions for the collection management of receivables on behalf of assignors are recognized in two successive stages in relation to the time and nature of the service rendered:
  - when the receivables are entrusted for credit management (commissions on acceptance and handling expenses);
  - when the receivables are collected (commissions on collection).

### A.3 - INFORMATION ON TRANSFERS BETWEEN PORTFOLIOS OF FINANCIAL ASSETS

In 2014, as in 2013, there were no reclassifications of financial assets between portfolios.

### A.4 - INFORMATION ON FAIR VALUE

#### *Qualitative information*

#### ***A.4.1 Fair value Levels 2 and 3: valuation techniques and inputs used***

The above financial assets/liabilities held for trading refer to the recognition of the fair value of financial derivatives, and are classified as Level 2, in that the inputs used for measurement are not quoted prices in an active market, observable directly or indirectly, but are acquired from external providers.

The valuation techniques used to determine Level 2 fair value are based on estimated cash flows, using market parameters. In the measurement of the fair value of derivatives, account was taken of the credit risk inherent in the instruments through the calculation of the credit value adjustment (CVA) and the debit value adjustment (DVA). The valuations of the assets and liabilities, classified as Level 3 are not based on observable market data.

#### ***A.4.2 Valuation processes and sensitivities***

These financial instruments are used to hedge fluctuations in the market rate compared to the fixed rate used in non-recourse commissions on the purchases of non-recourse receivables.

At December 31, 2014, the amount recognized corresponds to the fair value of the instrument, not deriving from internal estimates but communicated by the counterparty of the instrument. The fair value change in such financial assets/liabilities from December 31, 2013 requires the recognition in the income statement of a net gain/loss (+/-) on trading.

#### ***A.4.3 Fair value hierarchy***

In 2014, as in 2013, there were no transfers between Level 1, Level 2 and Level 3.

**Quantitative information**

All amounts are expressed in thousands of euros.

**A.4.5 Fair value hierarchy****A.4.5.1 Assets and liabilities measured at fair value on a recurring basis: breakdown by fair value levels**

Financial assets/liabilities measured at fair value on a recurring basis	12.31.2014			12.31.2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading					5	
2. Financial assets at fair value						
3. Available-for-sale financial assets	370,157		23	81,992		23
4. Hedging derivatives						
5. Property, plant and equipment						
6. Intangible assets						
<b>Total</b>	<b>370,157</b>		<b>23</b>	<b>81,992</b>	<b>5</b>	<b>23</b>
1. Financial liabilities held for trading		46			548	
2. Financial liabilities at fair value						
3. Hedging derivatives		47				
<b>Total</b>		<b>93</b>			<b>548</b>	

**A.4.5.4 Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis: breakdown by fair value levels**

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	12.31.2014				12.31.2013			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity financial assets	955,932	955,932						
2. Due from banks	97,726			97,726	325,944			325,944
3. Due from customers	1,554,957			1,554,957	1,136,578			1,136,578
4. Property, plant and equipment held for investment purposes								
5. Non-current assets and disposal groups of assets held for sale								
<b>Total</b>	<b>2,608,615</b>	<b>955,932</b>		<b>1,652,683</b>	<b>1,462,522</b>			<b>1,462,522</b>
1. Due to banks	970,508			970,508	804,451			804,451
2. Due to customers	1,168,792			1,168,792	173,438			173,438
3. Securities issued	469,786	303,136	166,650		320,000		320,000	
4. Liabilities associated with assets held for sale								
<b>Total</b>	<b>2,609,086</b>	<b>303,136</b>	<b>166,650</b>	<b>2,139,300</b>	<b>1,297,889</b>		<b>320,000</b>	<b>977,889</b>

**Key:**

CA = Carrying amount

L1 = Level 1: quoted prices (without adjustments) recognized in active markets according to the definition of IFRS 13.

L2 = Level 2: inputs other than quoted market prices included within Level 1 that are observable directly (prices) or indirectly (derived from the prices) in the market.

L3 = Level 3: inputs that are not based on observable market data.

**A.5 - INFORMATION ON DAY ONE PROFIT/LOSS**

The Group does not hold nor has it held financial assets to which this disclosure is applicable.

## Part B - Consolidated Balance Sheet

All amounts are expressed in thousands of euros.

### ASSETS

#### Section 1 - Cash and cash balances - Item 10

€3 thousand

##### 1.1 Cash and cash balances: breakdown

	12.31.2014	12.31.2013
a) Cash	3	1
b) Demand deposits with central banks		
<b>Total</b>	<b>3</b>	<b>1</b>

Cash and cash balances are represented by the cash fund.  
There are no significant changes compared to December 31, 2013.

#### Section 2 - Financial assets held for trading - Item 20

€0

Financial assets held for trading include financial instruments put in place to hedge interest rate risk.

At December 31, 2014 the amounts refer to financial derivatives issued by banks, classified in the fair value hierarchy as "Level 2".



## 2.1 Financial assets held for trading: product breakdown

Items/Amounts	12.31.2014			12.31.2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>A. FINANCIAL ASSETS</b>						
1. Debt securities						
1.1 Structured						
1.2 Other						
2. Equity securities						
3. Units in investment funds						
4. Loans						
4.1 Reverse repos						
4.2 Other						
<b>Total A</b>						
<b>B. DERIVATIVE INSTRUMENTS</b>						
1. Financial derivatives						
1.1 Trading					5	
1.2 Related to fair value option						
1.3 Other						
2. Credit derivatives						
2.1 Trading						
2.2 Related to fair value option						
2.3 Other						
<b>Total B</b>					<b>5</b>	
<b>Total (A+B)</b>					<b>5</b>	

At December 31, 2013, the fair value of the assets linked to the financial derivatives held for trading was €5 thousand and the notional amount of reference was €20 million. At December 31, 2014 this amount is zero.

**2.2 Financial assets held for trading: breakdown by debtor/issuer**

Items/Amounts	12.31.2014	12.31.2013
<b>A. FINANCIAL ASSETS</b>		
<b>1. Debt securities</b>		
a) Governments and central banks		
b) Other public sector entities		
c) Banks		
d) Other issuers		
<b>2. Equity securities</b>		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
<b>3. Units in investment funds</b>		
<b>4. Loans</b>		
a) Governments and central banks		
b) Other public sector entities		
c) Banks		
d) Other issuers		
<b>Total A</b>		
<b>B. DERIVATIVE INSTRUMENTS</b>		
a) Banks		5
b) Customers		
<b>Total B</b>		<b>5</b>
<b>Total (A+B)</b>		<b>5</b>

**Section 4 – Available-for-sale financial assets – Item 40**

€370,180 thousand

During the year Available-for-Sale (AFS) securities in portfolio at December 31, 2013 were sold for a nominal amount of €80 million. Government securities were then purchased to protect against liquidity risk and to optimize the cost of money for a total nominal amount of €368 million. The securities held are at variable rates (CCT) with a maturity date within two years.

These securities are classified in the AFS portfolio and as such are measured at amortized cost. The interest earned is recorded in the income statement according to the effective interest method.

At the end of the year, the value of the securities is compared to their fair value and the fair value adjustment is recorded in equity within valuation reserves.

At December 31, 2014, the fair value reserves on AFS securities amount to approximately €238 thousand net of the tax effect.

These assets also include the investment of €23 thousand held by Banca Farmafactoring in the company Nomisma S.p.A. – Società di Studi Economici, accounted for at cost, in the absence of other elements of valuation.

The main information about the investment is as follows:

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cent)	Percentage of investment holding
Nomisma S.p.A.	23,491.75	72,667	0.32	0.356%

Key figures on Nomisma S.p.A. are the following:

*amounts in euros, referring to December 31, 2013*

Head office	Bologna - Strada Maggiore 44
Share capital	€6,605,829.68 fully paid-in
Equity	4,794,388
Loss for the year	(576,926)

#### 4.1 Available-for-sale financial assets: product breakdown

Items/Amounts	12.31.2014			12.31.2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities						
1.1 Structured securities						
1.2 Other	370,157			81,992		
2. Equity securities						
2.1 Measured at fair value						
2.2 Carried at cost			23			23
3. Units in investment funds						
4. Loans						
<b>Total</b>	<b>370,157</b>		<b>23</b>	<b>81,992</b>		<b>23</b>

*4.2 Available-for-sale financial assets: breakdown by debtor/issuer*

Items/Amounts	12.31.2014	12.31.2013
<b>1. Debt securities</b>		
a) Governments and central banks	370,157	81,992
b) Other public sector entities		
c) Banks		
d) Other issuers		
<b>2. Equity securities</b>		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies	23	23
- other		
<b>3. Units in investment funds</b>		
<b>4. Loans</b>		
a) Governments and central banks		
b) Other public sector entities		
c) Banks		
d) Other entities		
<b>Total</b>	<b>370,180</b>	<b>82,015</b>

#### 4.4 Available-for-sale financial assets: annual changes

	Debt securities	Equity securities	Units in inv. funds	Loans	Total
<b>A. Beginning balance</b>	<b>81,992</b>	<b>23</b>			<b>82,015</b>
<b>B. Increases</b>					
B1. Purchases	496,208				<b>496,208</b>
B2. Positive fair value changes	355				<b>355</b>
B3. Impairment reversals					
- recognized in income statement					
- recognized in equity					
B4. Transfers from other portfolios					
B5. Other changes	3,575				<b>3,575</b>
<b>C. Decreases</b>					
C1. Sales	(211,963)				<b>(211,963)</b>
C2. Redemptions					
C3. Negative fair value changes					
C4. Impairment losses					
- recognized in income statement					
- recognized in equity					
C5. Transfers to other portfolios					
C6. Other changes	(10)				<b>(10)</b>
<b>D. Ending balance</b>	<b>370,157</b>	<b>23</b>			<b>370,180</b>

The positive fair value changes are expressed before the tax effect.

**Section 5 - Held-to-maturity Financial assets - Item 50**

€955,932 thousand

In 2014 government securities were purchased, again to protect against liquidity risk and to optimize the cost of money, for a total nominal amount of €928 million, classified in the Held-to-Maturity (HTM) portfolio.

These securities are at a fixed rate (BOT, BTP and CTZ) with maturity dates related to the sources of committed and unsecured funding. Such securities were classified in the HTM portfolio and therefore measured at amortized cost. The interest earned was recorded in the income statement according to the effective interest method.

The HTM portfolio refers to financial assets which the company intends to hold until the maturity date set in the contract, and which permits the collection of fixed and determinable amounts. According to IAS 39, an entity may not classify any financial assets as held-to-maturity if the entity has sold or reclassified, during the current or the preceding two fiscal years, more than an insignificant amount of held-to-maturity investments before their maturity.

The fair value of these securities at December 31, 2014 is €957,357 thousand, with a positive fair value change compared to the carrying amount at the same date of €1,436 thousand, which is not recognized in the financial statements.

**5.1 Held-to-maturity financial assets: product breakdown**

	12.31.2014				12.31.2013			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>1. Debt securities</b>								
- structured								
- other	955,932	957,357						
<b>2. Loans</b>								
<b>Total</b>	<b>955,932</b>	<b>957,357</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 5.2 Held-to-maturity financial assets: debtor/issuer

Types of Transactions/Amounts	12.31.2014	12.31.2013
<b>1. Debt securities</b>		
a) Governments and central banks	955,932	
b) Other public sector entities		
c) Banks		
d) Other issuers		
<b>2. Loans</b>		
a) Governments and central banks		
b) Other public sector entities		
c) Banks		
d) Other entities		
<b>Total</b>	<b>955,932</b>	
<b>Total fair value</b>	<b>957,357</b>	

## 5.4 Held-to-maturity financial assets: annual changes

	Debt securities	Loans	Total
<b>A. Beginning balance</b>			
<b>B. Increases</b>			
B1. Purchases	1,121,172		<b>1,121,172</b>
B2. Impairment reversals			
B3. Transfers from other portfolios			
B4. Other changes	10,142		<b>10,142</b>
<b>C. Decreases</b>			
C1. Sales			
C2. Redemptions	(165,545)		<b>(165,545)</b>
C3. Impairment losses			
C4. Transfers to other portfolios			
C5. Other changes	(9,837)		<b>(9,837)</b>
<b>D. Ending balance</b>	<b>955,932</b>	<b>0</b>	<b>955,932</b>

**Section 6 - Due from banks - Item 60**

€97,726 thousand

The amounts due from banks refer mainly to current account transactions generated by the liquidity from collections received in the final days of the year, pending clearance, relating to both "receivables" management and management of "non-recourse receivables purchased".

**6.1 Due from banks: product breakdown**

Types of Transactions/Amounts	12.31.2014				12.31.2013			
	CA	FV			CA	FV		
		L1	L2	L3		L1	L2	L3
<b>A. Due from central banks</b>								
1. Time deposits								
2. Mandatory reserve								
3. Reverse repos								
4. Other	37,194			37,194				
<b>B. Due from banks</b>								
1. Loans								
1.1 Current accounts and demand deposits	59,613			59,613	324,481			324,481
1.2 Time deposits	919			919	1,462			1,462
1.3 Other loans								
- reverse repos								
- finance leases								
- other					2			2
2. Debt securities								
2.1 Structured securities								
2.2 Other								
<b>Total</b>	<b>97,726</b>	<b>0</b>	<b>0</b>	<b>97,726</b>	<b>325,944</b>	<b>0</b>	<b>0</b>	<b>325,944</b>

**Key:**

FV = fair value

CA = carrying amount



This item includes:

- €9,452 thousand relating to the relationship with Istituto Centrale delle Banche Popolari (ICBPI) which provides business processing services for SEPA payments, on behalf of Banca Farmafactoring.
- €37,194 thousand relating to the Real Time Gross Settlement (RTGS) TARGET 2 account with Bank of Italy and opened by Banca Farmafactoring in July 2014.
- Approximately €919 thousand relating to the mandatory reserve deposit with ICBPI since Banca Farmafactoring participates indirectly in the system.

There are no impaired assets in this item.

#### **Section 7 – Due from customers – Item 70**

*€1,554,957 thousand*

Due from customers mainly include receivables from debtors, including interest on late payments, referring to factoring transactions.

Until December 31, 2013 the receivables for interest on late payments invoiced were completely written off through a provision account recognized as a deduction from the asset; the interest on late payments due but not invoiced to the debtor was not recognized. When the actual interest on late payments was collected, this writeoff was reversed and the interest on late payments was credited to the income statement on the basis of the percentage of recovery effectively realized.

During 2014, the Bank acquired analysis instruments which enabled it to obtain a time series of data such as to permit the calculation of a reliable estimate of the probable amount of interest on late payments that will be collected and the relative collection times. As a consequence, starting from the financial statements for the year ended December 31, 2014, the Bank applied the percentage of recoverability to receivables for interest on late payments calculated as a result of the above time series analysis.

The weighted average trend of the collection percentages over the years, forming the time series considered, is more than 40% and, therefore, prudently, this percentage was used for the estimate of the amount of interest on late payments that will be collected in the future and which is recorded under receivables for an amount of €113,396 thousand, with the date of collection estimated at 1800 days from the due date of the purchased invoice.

This recovery percentage, however, was not applied to the interest on late payments relating to non-performing positions which are, therefore, completely written off.

With regard to the receivables purchased by Farmafactoring España, the average percentage recovery of interest on late payments observed tends to be equal to 100% and is collected in less time on average than receivables from the Italian Health Service. Nevertheless, since the sample size observed is limited, it was prudently decided to positively consider the utilization of the same recovery rate of 40% and the same collection time of 1800 days as used by Banca Farmafactoring.

The cumulative amount of interest on late payments to which the Group is entitled and not yet collected, in relation to non-recourse receivables purchased (the provision account for interest on late payments) at the Group level, is €357 million, €386 million and €427 million, respectively, for the years ended December 31, 2012, 2013 and 2014. At December 31, 2014, as a result of the change in the estimate of the recoverability of interest on late payments, a portion of such provision account, equal to €113 million, was recognized in the income statement and in due from customers in the Group's balance sheet.

### 7.1 Due from customers: product breakdown

"Due from customers" are composed as follows:

- "performing" non-recourse receivables purchased, recorded in the name of the assigned debtor, which meet the conditions for derecognition, measured at amortized cost, with a balance of €1,523,383 thousand, of which €250,825 thousand refers to the subsidiary Farmafactoring España. Included in this amount are "not impaired past due receivables", in accordance with the provisions of Circular 272 of July 30, 2008 and subsequent updates - "Matrix Accounts", equal to €255,287 thousand.

Non-recourse receivables are mainly purchased when already past due and the principal portion of the receivables is deemed collectible. The right to interest on late payments, accrued or accruing, is acquired at the same time the receivables are purchased.

Receivables and loans also comprise receivables sold, for a total of €242,685 thousand, but not derecognized from the assets in the financial statements since the sales did not involve the transfer of the risks and rewards associated with such receivables. The amount refers to two transactions for the securitization of health care receivables.

"Impaired assets", inclusive of exposure for purchases below face value, total €12,778 thousand and comprise:

- Non-performing receivables: the amount of €2,936 thousand, of which about €2.4 million corresponds to the exposure with the debtor Fondazione San Raffaele del Monte Tabor. After an agreement was recognized by the composition of creditors, approved by the meeting of creditors on March 19, 2012, for the principal as well as the late interest, which was nevertheless completely written off, the company decided not to make any provision for principal since the total of the collections deriving from the agreement are in line with the outstanding amount of principal. Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors, in 2013 paid the first two distributions, of about €9.6 million. In 2014 another debtor and assignor were considered non-performing for an amount of approximately €570 thousand, which has not been written down because it is covered by guarantees. The other non-performing positions of €2.4 million were completely written off against the provision account and their net book value is now zero. The provision account for interest on late payments on non-performing positions amounts to €14.9 million and is completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.
- Doubtful receivables: consisting entirely of "objective" doubtful receivables, for €62 thousand;
- Past due receivables: for €9,779 thousand;

- other loans due from customers, for €19,223 thousand, include:
  - advances to assignors for €855 thousand;
  - receivables from assignors for legal fees to be recovered for €2,234 thousand;
  - receivables for commissions to be invoiced to assignors and for interest on extended payment terms to be charged to debtors, for €2,630 thousand;
  - non-performing assignors for €427 thousand;
  - margins deposited as collateral on repos with Cassa di Compensazione e Garanzia for €13,077 thousand.

Past due receivables amount to €9,779 thousand and consist of receivables from central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2014 are past due more than 90 days.

Specifically, exposure with central administrations and central banks, public sector entities and territorial entities are considered past due when the debtor has not made any payment for any of the positions owed to the bank for more than 90 days.

“Objective” doubtful receivables amount to €62 thousand and are composed of exposure with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.

Non-performing receivables amount to €2,936 thousand and consist of exposures with parties that are in a state of insolvency or basically in similar situations, regardless of any provisions for loss set aside by the company.

Non-performing receivables, therefore, include all doubtful uncollectible receivables, net of writedowns for estimated impairment losses on receivables and any writebacks.

Receivables purchased below face value, including the related interest on late payments, is equal to €15,733 thousand.

In 2014 the realizable value of receivables purchased below face value and recorded in the income statement is equal to €3,483 thousand.

Types of transactions/ Amounts	12.31.2014						12.31.2013					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purch.	Other					Purch.	Other			
<b>Loans</b>												
1. Current accounts												
2. Reverse repos												
3. Mortgages												
4. Credit cards, personal loans, garnishment of wages												
5. Finance leases												
6. Factoring	1,523,383	12,351			1,535,734	1,119,125	8,367				1,127,492	
7. Other loans	18,797	427			19,223	9,086					9,086	
<b>Debt securities</b>												
8. Structured securities												
9. Other												
<b>Total</b>	<b>1,542,180</b>	<b>12,778</b>			<b>1,554,957</b>	<b>1,128,211</b>	<b>8,367</b>				<b>1,136,578</b>	

Legal actions undertaken are mainly geared towards accelerating the recovery of receivables.

#### **Fair value**

Receivables and loans in the financial statements mainly refer to receivables for the purchase of non-recourse receivables for which there is not an active and liquid market. These especially refer to past due receivables from the Public Administration for which it is not easy to reliably determine the price of a hypothetically independent transaction, partly due to the difficulties in establishing a reasonable assessment of the liquidity risk which would be accepted by the market for such transactions.

It was therefore deemed that the carrying amount (determined on the basis of "amortized cost" and taking into account any individual and collective impairment losses) in relation to the nature, type, duration and forecasts of collection of such assets could substantially be considered representative of the fair value of these same receivables at the balance sheet date.

## 7.2 Due from customers: breakdown by debtor/issuer

Types of transactions/Amounts	12.31.2014			12.31.2013		
	Performing	Impaired		Performing	Impaired	
		Purchased	Other		Purchased	Other
<b>1. Debt securities</b>						
a) Governments						
b) Other public sector entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
<b>2. Loans to:</b>						
a) Governments	110,773		5,247	11,320		
b) Other public sector entities	1,385,741		3,394	1,107,714		5,798
c) Other entities						
- non-financial companies	23,726		1,050	2,293		130
- financial companies	13,655			1,700		
- insurance companies						
- other	8,285		3,087	5,184		2,439
<b>Total</b>	<b>1,542,180</b>		<b>12,778</b>	<b>1,128,211</b>		<b>8,367</b>

**Section 12 - Property, plant and equipment - Item 120**

€12,693 thousand

**12.1 Property, plant and equipment used in the business: breakdown of assets carried at cost**

<b>Assets/Amounts</b>	<b>12.31.2014</b>	<b>12.31.2013</b>
<b>1. Owned assets</b>		
a) land	3,685	3,685
b) buildings	7,582	7,634
c) furniture and fixtures	300	348
d) electronic systems	683	533
e) other	442	629
<b>2. Leased assets acquired under finance leases</b>		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
<b>Total</b>	<b>12,693</b>	<b>12,829</b>

### 12.5 Property, plant and equipment used in the business: annual changes

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
<b>A. Gross beginning balance</b>	<b>3,685</b>	<b>16,355</b>	<b>2,352</b>	<b>4,914</b>	<b>5,115</b>	<b>32,421</b>
A.1 Total net impairment loss	0	(8,721)	(2,004)	(4,381)	(4,485)	(19,592)
<b>A.2 Net beginning balance</b>	<b>3,685</b>	<b>7,634</b>	<b>348</b>	<b>533</b>	<b>629</b>	<b>12,829</b>
<b>B. Increases</b>						
B.1 Purchases		262	38	520	97	917
B.2 Capitalized improvements						
B.3 Writebacks						
B.4 Positive fair value changes allocated to: a) equity b) income statement						
B.5 Net exchange gains						
B.6 Transfers from properties held for investment						
B.7 Other changes						
<b>C. Decreases</b>						
C.1 Disposals						
C.2 Depreciation		(314)	(87)	(369)	(283)	(1,053)
C.3 Impairment losses allocated to: a) equity b) income statement						
C.4 Negative fair value changes allocated to: a) equity b) income statement						
C.5 Net exchange losses						
C.6 Transfers to: a) property, plant and equipment held for investment b) assets held for sale						
C.7 Other changes						
<b>D. Net Ending balance</b>	<b>3,685</b>	<b>7,582</b>	<b>300</b>	<b>683</b>	<b>442</b>	<b>12,693</b>
D.1 Net impairment loss		(9,035)	(2,091)	(4,751)	(4,769)	(20,645)
<b>D.2 Gross ending balance</b>	<b>3,685</b>	<b>16,617</b>	<b>2,390</b>	<b>5,434</b>	<b>5,211</b>	<b>33,338</b>
<b>E. Carried at cost</b>	<b>3,685</b>	<b>16,617</b>	<b>2,390</b>	<b>5,434</b>	<b>5,211</b>	<b>33,338</b>

At the date of IFRS first-time adoption (January 1, 2005), the properties used by Banca Farmafactoring in the business (Milan and Rome) were measured at fair value which then became the new cost from that date.

The measurement at first-time adoption resulted in a revaluation of the buildings for approximately €4 million, from approximately €5 million to €9 million.

In the financial statements, the value of the land and building owned in Milan (at Via Domenichino 5) was separated on the basis of an appraisal conducted by the same company which determined the value of both the land and building.

The land on which the Rome building sits was not separated because Banca Farmafactoring is not the owner of the entire building.

### **Section 13 - Intangible assets - Item 130**

€2,053 thousand

#### **13.1 Intangible assets: breakdown**

	12.31.2014		12.31.2013	
	Finite life	Indefinite life	Finite life	Indefinite life
<b>Assets/Amounts</b>				
<b>A.1 Goodwill</b>				
A.1.1 attributable to the Group				
A.1.2 attributable to non-controlling interests				
<b>A.2 Other intangible assets</b>				
A.2.1 Assets measured at cost:				
a) intangible assets generated internally				
b) other	2,053		1,122	
A.2.2 Assets measured at fair value:				
a) intangible assets generated internally				
b) other				
<b>Total</b>	<b>2,053</b>		<b>1,122</b>	

In accordance with the information required by IAS 38, paragraph 118, letter a), a statement is made to the effect that the amortization rates applied are based on the estimated useful lives of the intangible assets.



### 13.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: Other		Total
		DEF	INDEF	DEF	INDEF	
<b>A. Beginning balance</b>				<b>1,122</b>		<b>1,122</b>
A.1 Total net impairment loss						
<b>A.2 Net beginning balance</b>				<b>1,122</b>		<b>1,122</b>
<b>B. Increases</b>						
B.1 Purchases				1,620		1,620
B.2 Increase in internally generated intangible assets						
B.3 Impairment reversals						
B.4 Positive fair value changes allocated to: - equity - income statement						
B.5 Exchange gains						
B.6 Other changes						
<b>C. Decreases</b>						
C.1 Disposals						
C.2 Adjustments for - amortization - impairment losses allocated to: + equity + income statement				(689)		(689)
C.3 Negative fair value changes allocated to: - equity - income statement						
C.4 Transfers to non-current assets held for sale						
C.5 Exchange losses						
C.6 Other changes						
<b>D. Net Ending balance</b>				<b>2,053</b>		<b>2,053</b>
D.1 Net impairment loss						
<b>E. Gross ending balance</b>				<b>2,053</b>		<b>2,053</b>
<b>F. Carried at cost</b>				2,053		2,053

**Key:**

DEF = finite

INDEF = indefinite

Intangible assets are recorded at cost; the carrying amount is net of amortization which is calculated on the basis of the residual estimated future benefit.

**Section 14 – Tax assets and liabilities – Item 140 of assets and Item 80 of liabilities**

Current tax assets amount to €28,571 thousand compared to €37,879 thousand at December 31, 2013.

The decrease in current tax assets arises mainly from what was established, for the previous year, by the provisions of Legislative Decrees 102 of August 31, 2013 and 133 of November 30, 2013, which raised the advance payments for IRES and IRAP taxes to 130% for banks and financial companies for the current tax period to December 31, 2013.

The amount of current tax liabilities in 2014 of €30,885 was affected by the change in method used to estimate the provision for interest on late payments adopted by the Group. This led to the recognition in the year 2014 of the effects of such change, both on the receivables recorded during the year and those recorded in past years, resulting in the recognition of very significant non-recurring income in the income statement.

Such income gave rise to higher current taxes of about €6 million and higher deferred taxes of about €31 million.

The current tax liabilities relating to the prior year of €35,796 thousand come from the application of Legislative Decree 133 of November 30, 2013 which required, for 2013, credit and financial institutions and insurance companies to pay a further 8.5% over the ordinary IRES tax rate, which thus rose from 27.5% to 36%.

**14.1 Deferred tax assets: breakdown**

€2,545 thousand

Deferred tax assets are mainly composed of the portion of amounts deductible in future years relating to impairment charges on receivables, the accrual on deferred employee benefit obligations, in addition to the depreciation referring to future years.

With regard to the latter, it should be noted that during the year the Bank settled the controversy pending with the Revenue Agency, relating to the years 2005 – 2009. The dispute refers to the tax writeback of accelerated depreciation taken in excess of the deductible amount allowed, following reclassification for tax purposes of an item in the financial statements. Since the observations referred to the timing of the charges for depreciation, meaning that the deductibility of the costs is only transferred in terms of timing, the higher taxes paid definitively have been recorded in deferred tax assets since they may be recovered in the following fiscal years.

Deferred taxes through the balance sheet for €13 thousand refer to the reserves on hedging derivatives. The tax rates used are the ordinary rates (27.5% for IRES and 5.57% for IRAP).

#### 14.2 Deferred tax liabilities: breakdown

€42,171 thousand

Deferred tax liabilities mainly refer to interest on late payments recognized in the financial statements on the accrual basis but which form part of the taxable income of future years when the interest is collected, in accordance with art. 109, chapter 7 of D.P.R. 9917 of 1986, as well as the allowance for the impairment of receivables and loans referring to previous years.

The total amount of deferred tax liabilities of €42,171 thousand comes from the sum of deferred taxes through the income statement for €42,017 thousand and those through the balance sheet for €154 thousand, which principally regard the reserves on the available-for-sale securities portfolio.

#### 14.3 Deferred tax assets: annual changes (through the income statement)

€2,178 thousand

	12.31.2014	12.31.2013
<b>1. Beginning balance</b>	<b>2,204</b>	<b>2,841</b>
<b>2. Increases</b>		
2.1 Deferred tax assets recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) impairment reversals		
d) other	837	348
2.2 New taxes or tax rate increases		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax assets derecognized during the year		
a) reversals	(862)	(985)
b) writeoffs due to non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
a) conversion into tax credit under Law 214/2011		
b) other		
<b>4. Ending balance</b>	<b>2,178</b>	<b>2,204</b>

*14.3.1 Deferred tax assets under Law 214/2011: annual changes (through the income statement)*

	12.31.2014	12.31.2013
<b>1. Beginning balance</b>	<b>509</b>	<b>548</b>
<b>2. Increases</b>		
<b>3. Decreases</b>		
3.1 Reversals	(39)	(39)
3.2 Conversion into tax credit		
a) due to reported losses		
b) due to tax losses		
3.3 Other decreases		
<b>4. Ending balance</b>	<b>470</b>	<b>509</b>

*14.4 Deferred tax liabilities: annual changes (through the income statement)**€42,017 thousand*

	12.31.2014	12.31.2013
<b>1. Beginning balance</b>	<b>10,987</b>	<b>11,337</b>
<b>2. Increases</b>		
2.1 Deferred tax liabilities recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	31,038	
2.2 New taxes or tax rate increases		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(8)	(314)
b) due to changes in accounting policies		(36)
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
<b>4. Ending balance</b>	<b>42,017</b>	<b>10,987</b>

**14.5 Deferred tax assets: annual changes (through equity)**

€367 thousand

	12.31.2014	12.31.2013
<b>1. Beginning balance</b>		
<b>2. Increases</b>		
2.1 Deferred tax assets recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	367	
2.2 New taxes or tax rate increases		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax assets derecognized during the year		
a) reversals		
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
<b>4. Ending balance</b>	<b>367</b>	

**14.6 Deferred tax liabilities: annual changes (through equity)**

€154 thousand

	12.31.2014	12.31.2013
<b>1. Beginning balance</b>	<b>232</b>	
<b>2. Increases</b>		
2.1 Deferred tax liabilities recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		36
c) other	118	196
2.2 New taxes or tax rate increases		
2.3 Other increases		
<b>3. Decreases</b>		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(196)	
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
<b>4. Ending balance</b>	<b>154</b>	<b>232</b>

## Section 16 – Other assets – Item 160

€7,307 thousand

### 16.1 Other assets: breakdown

Details	12.31.2014	12.31.2013
Security deposits	26	26
Other receivables	2,522	1,612
Accrued income and prepaid expenses	4,758	7,698
<b>Total</b>	<b>7,307</b>	<b>9,336</b>

Prepaid expenses mainly refer to differences in the timing of contractual fees on loans and on structured finance transactions.

The Bank has a dispute pending with the Revenue Agency relating to the year 2004 for the write-back of depreciation taken in excess of the deductible amount allowed, following the reclassification of an item in the financial statements.

The assessment, which amounts to €381 thousand, was ruled on by the Regional Tax Commission of Lombardy which filed its verdict on October 19, 2012, a verdict which, contrary to the one issued by the Provincial Tax Commission, decided in favor of the Revenue Agency. In the opinion of the tax consultant, the verdict appears arguable in that the Regional Tax Commission did not express itself on the merits of the tax claim but limited itself to a merely formal evaluation of the ruling handed down by the judges of the first instance. Therefore, the company filed an appeal with the Court of Cassation, which is still awaiting discussion.

Furthermore, it should be noted that, since the observations referred to the timing of the charges for depreciation, meaning that the deductibility of the costs is only transferred in terms of timing, any higher tax which could ultimately be assessed would not constitute costs for the Bank in that they represent deferred taxes which may be recovered in the following years.

Consequently, the taxes and penalties paid pending the dispute are recorded in other assets since the Bank did not consider it necessary to set aside an amount in the financial statements for the existing dispute as it believes that the observation is based upon a debatable interpretation of the law and that it would be reasonable to wait and see whether its arguments produce a favorable outcome when the case is heard by the Court of Cassation.

## LIABILITIES AND EQUITY

### Section 1 – Due to banks – Item 10

€970,508 thousand

#### 1.1 Due to banks: product breakdown

Types of transactions/Amounts	12.31.2014	12.31.2013
<b>1. Due to central banks</b>	420,000	
<b>2. Due to banks</b>		
2.1 Current accounts and demand deposits	5	204,951
2.2 Time deposits	550,500	599,500
2.3 Loans		
2.3.1 Repos		
2.3.2 Other	3	
2.4 Payables in respect of commitments to repurchase treasury shares		
2.5 Other payables		
<b>Total</b>	<b>970,508</b>	<b>804,451</b>
<i>Fair value - Level 1</i>		
<i>Fair value - Level 2</i>		
<i>Fair value - Level 3</i>	<b>970,508</b>	<b>804,451</b>
<b>Total fair value</b>	<b>970,508</b>	<b>804,451</b>

“Due to central banks”, amounting to €420 million, refers to deposits made with the central bank for Banca Farmafactoring’s participation in the December 31, 2014 auction, as part of the central bank’s monetary policy operations. The transaction is guaranteed by government securities pledged and deposited in the ECB’s Pool account.

“Due to banks” refers to loans granted by the banking system at current market rates for €550.5 million.



## Section 2 – Due to customers – Item 20

€1,168,792 thousand

### 2.1 Due to customers: product breakdown

Types of transactions/Amounts	12.31.2014	12.31.2013
1. Current accounts and demand deposits	10,567	0
2. Time deposits	215,316	0
3. Loans		
3.1 Repos	595,034	0
3.2 Other loans	231,946	72,379
4. Payables in respect of commitments to repurchase treasury shares	0	0
5. Other payables	115,929	101,059
<b>Total</b>	<b>1,168,792</b>	<b>173,438</b>
<i>Fair value - Level 1</i>		
<i>Fair value - Level 2</i>		
<i>Fair value - Level 3</i>	<b>1,168,792</b>	<b>173,438</b>
<b>Total fair value</b>	<b>1,168,792</b>	<b>173,438</b>

“Due to customers” refers to the amounts on the online deposit account, Conto Facto, begun in September 2014 and equal to €225.9 million. The balance is divided between current accounts and demand deposits for €10,567 thousand and time deposits for €215,316 thousand.

The repos for approximately €595 million are with Cassa di Compensazione e Garanzia and were put into place to refinance the securities portfolio of the Bank.

“Other loans” refer to:

- position of €103.3 million arising from existing collaboration with International Factor Italia S.p.A. – IFITALIA, due May 31, 2015;
- position of €88.7 million arising from existing collaboration with Unicredit Factoring S.p.A.;
- loan of €40 million secured from Cassa Depositi e Prestiti.

“Other payables” principally refer to collections of managed receivables due to assignors.

**Section 3 - Securities issued - Item 30**

€469,786 thousand

**3.1 Securities issued: product breakdown**

	12.31.2014			12.31.2013				
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
<b>A. Securities</b>								
1. Bonds								
1.1 structured								
1.2 other	469,786		469,786	320,000		320,000		
2. Other securities								
2.1 structured								
2.2 other								
<b>Total</b>	<b>469,786</b>		<b>469,786</b>	<b>320,000</b>		<b>320,000</b>		

On June 12, 2014 Banca Farmafactoring successfully concluded its first Senior Unsecured bond issue.

The bonds were privately placed with institutional investors for a total face value of €300 million. This is a three-year bond issue with a maturity date of June 12, 2017, unsecured and not rated.

The bonds are measured at amortized cost using the effective interest method. At December 31, 2014 the amount is €303.1 million.

Other bonds refer to securitization transactions outstanding at year-end for approximately €166.6 million. They refer to:

- the health care securitization transaction, structured by Banca IMI in June 2011;
- the health care securitization transaction, structured by Deutsche Bank in October 2012.

Receivables were sold to vehicle companies and not derecognized from the assets of Banca Farmafactoring S.p.A. since the sale did not involve the transfer of the risks and rewards.

#### Section 4 – Financial liabilities held for trading – Item 40

€46 thousand

The amounts at December 31, 2014 and at December 31, 2013 refer to financial derivatives issued by banks.

#### 4.1 Financial liabilities held for trading: product breakdown

Assets/Amounts	12.31.2014				12.31.2013					
	NA	Fair value			FV*	NA	Fair value			FV*
		L1	L2	L3			L1	L2	L3	
<b>A. Financial liabilities</b>										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other										
3.2 Other securities										
3.2.1 Structured securities										
3.2.2 Other										
<b>Total A</b>										
<b>B. Derivatives</b>										
1. Financial derivatives										
1.1 Trading	30,000		46		46	133,000		548	548	
1.2 Related to fair value option										
1.3 Other										
2. Credit derivatives										
2.1 Trading										
2.2 Related to fair value option										
2.3 Other										
<b>Total B</b>	<b>30,000</b>		<b>46</b>		<b>46</b>	<b>133,000</b>		<b>548</b>	<b>548</b>	
<b>Total (A+B)</b>	<b>30,000</b>		<b>46</b>		<b>46</b>	<b>133,000</b>		<b>548</b>	<b>548</b>	

At December 31, 2014, the liabilities connected to the fair value of financial derivatives held for trading amount to €46 thousand, and the notional amount of reference is €30 million.

**Section 6 – Hedging derivatives – Item 60**

€47 thousand

**6.1 Hedging derivatives: breakdown by type of hedging and by levels**

	Fair value 12.31.2014			NA 12.31.2014	Fair value 12.31.2013			NA 12.31.2013
	L1	L2	L3		L1	L2	L3	
<b>A. Financial derivatives</b>								
1) Fair value								
2) Cash flows		47		55,000		0		
3) Net investment in foreign subsidiaries								
<b>B. Credit derivatives</b>								
1) Fair value								
2) Cash flows								
<b>Total</b>	<b>0</b>	<b>47</b>	<b>0</b>	<b>55,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

At December 31, 2014 the cash flows connected to financial hedging derivatives amount to €47 thousand, and the nominal amount of reference is €55 million.

**Section 8 – Tax liabilities - Item 80**

See Section 14 under assets.

## Section 10 – Other liabilities – Item 100

€33,564 thousand

### 10.1 Other liabilities: breakdown

Details	12.31.2014	12.31.2013
Payables to suppliers	2,039	1,382
Invoices to be received	5,959	5,269
Payables to the tax authorities	643	752
Payables to social security agencies	422	345
Payables to employees	2,680	2,433
Payables for receivables management	3	596
Collections pending allocation	11,263	3,567
Other payables	7,992	4,954
Accrued liabilities and deferred income	2,562	6,071
<b>Total</b>	<b>33,564</b>	<b>25,370</b>

“Payables to suppliers” and “Invoices to be received” refer to purchases of goods and the performance of services.

“Collections pending allocation” refer to payments received by December 31, 2014 but still outstanding since they were not cleared and recorded by that date.

“Other payables” include the quotas of collections to be transferred.

“Accrued liabilities and deferred income” include interest expenses accrued on loans.

**Section 11 – Employee severance indemnities – Item 110**

€717 thousand

**11.1 “Employee severance indemnities”: annual changes**

	12.31.2014	12.31.2013
<b>A. Beginning balance</b>	<b>705</b>	<b>696</b>
<b>B. Increases</b>		
B.1 Provision for the year	274	253
B.2 Other increases	0	0
<b>C. Decreases</b>		
C.1 Payments made	(0)	(6)
C.2 Other decreases	(262)	(238)
<b>D. Ending balance</b>	<b>717</b>	<b>705</b>
<b>Total</b>	<b>717</b>	<b>705</b>

**11.2 Other information**

The liability recognized in the financial statements at December 31, 2014 represents the present value of the obligation estimated by an independent actuarial firm.

“Other decreases” include actuarial differences recognized directly in equity.

IAS 19, in fact, no longer allows the deferral of actuarial gains and losses under the corridor method, requiring their immediate recognition in comprehensive income for the year.

The results of the actuarial measurement reflect the impact of Law 296/2006 and the calculation, for purposes of IAS 19, refers solely to employee severance indemnity accrued and not transferred to supplementary pension funds or to the INPS treasury fund.

For details on the actuarial assumptions used in determining the liability at December 31, 2014, reference should be made to the following table 12.3.

**Section 12 – Provisions for risks and charges – Item 120**

€4,657 thousand

**12.1 Net provisions for risks and charges: breakdown**

Item/Components	12.31.2014	12.31.2013
<b>1. Pension funds and similar obligations</b>	<b>3,952</b>	<b>2,672</b>
<b>2. Other provisions</b>		
2.1 Legal disputes		
2.2 Personnel expenses		
2.3 Other	705	705
<b>Total</b>	<b>4,657</b>	<b>3,377</b>

### 12.2 Provisions for risks and charges: annual changes

Items/Amounts	Total	
	Pension funds	Other provisions
<b>A. Beginning balance</b>	<b>2,672</b>	<b>705</b>
<b>B. Increases</b>		
B.1 Provision for the year	1,280	
B.2 Change due to passing of time		
B.3 Variation due to change in the discount rate		
B.4 Other changes		
<b>C. Decreases</b>		
C.1 Use during the year		
C.2 Variation due to change in the discount rate		
C.3 Other changes		
<b>D. Ending balance</b>	<b>3,952</b>	<b>705</b>

### 12.3 Defined benefit pension funds

The provision refers to:

- for €526 thousand, the non-competition agreement signed by the executives of the Group companies;
- for €754 thousand, the deferral of a part of the bonus referring to the year, for the first and second level staff and other management staff.

Under the non-competition agreement the employee is required not to carry out, after ceasing the employment relationship, for any reason whatsoever, any activities in direct competition with that of Banca Farmafactoring. The commitment is for a three-year period and starts from the date that the employment relationship is terminated.

As consideration for this commitment, the Bank will pay a specific amount to the employee in semi-annual instalments.

With its transformation into a Bank, a decision was taken to reassess the systems of variable compensation in the short and medium term so as to fully comply with Bank of Italy provisions in this respect.

The features of the new system carry medium term restrictions, according to which 30% of the bonus for each year, starting from 2013, will be paid after three years, after the Bank achieves certain specific targets relating to its profit, the regulatory capital requirements established by existing regulations, and the employee's continuing employment with the company.

Such provisions were quantified, in accordance with IAS 19, on the basis of an actuarial calculation carried out by an outside specialized firm.

The obligations of the Bank were computed using the "Projected Unit Credit Method" which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation, as established by paragraphs 64 and 65 of IAS 19. This is an actuarial method which arrives at a valuation aimed at determining the average present value of the Bank's obligation.

Description of the most important actuarial assumptions

COMPANY	Banca Farmafactoring S.p.A.
VALUATION DATE	12.31.2014
Mortality table	Sim/f 2005
Future inflation rate	1.80%
Discount rate	4.30%
Rate relating to termination of executives	0.50%
Rate relating to termination of supervisors	3.00%
Rate relating to termination remaining staff	3.00%
Rate relating to requests for advances by executives	1.00%
Rate relating to requests for advances by supervisors	2.50%
Rate relating to requests for advances by remaining staff	2.50%



## Section 15 - Equity - Items 140, 160, 170, 180, 190, 200 and 220

€310,794 thousand

### 15.1 "Share capital" and "Treasury shares": breakdown

€130,900 thousand

At December 31, 2014 share capital consists of 1,700,000 ordinary shares of nominal value €77.00 each, for a total of €130,900 thousand.

### 15.2 Share capital - Number of shares of the parent: annual changes

Items/Types	Ordinary	Other
<b>A. Shares at beginning of the year</b>		
- fully paid	1,700,000	
- not fully paid		
A.1 Treasury shares (-)		
<b>A.2 Shares outstanding: Beginning balance</b>	<b>1,700,000</b>	
<b>B. Increases</b>		
B.1 New issues		
- A Payment		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- A Free		
- to employees		
- to directors		
- other		
B.2 Sales of treasury shares		
B.3 Other changes		
<b>C. Decreases</b>		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Transactions for sale of companies		
C.4 Other changes		
<b>D. Shares outstanding: Ending balance</b>	<b>1,700,000</b>	
D.1 Treasury shares (+)		
D.2 Shares outstanding at end of year		
- fully paid	1,700,000	
- not fully paid		

**15.4 Income reserves: other information**

In accordance with art. 2427, paragraph 7-bis of the Italian Civil Code, a summary is presented below of the individual items of equity according to the possibility of utilization, the amount available for distribution and their utilization in the three years previous to the date of the preparation of these financial statements.

	12.31.2014	Possibility of utilization (a)	Amount available	Summary of utilization in the last three years	
				For absorption of losses	For other reasons
<b>Share capital</b>	<b>130,900</b>				
<b>Reserves</b>	<b>51,482</b>				
- Legal reserve	21,489	B			
- Extraordinary reserve	89	A,B,C	89		
- Retained earnings	29,904	A,B,C	29,904		(*) 25,500
<b>Valuation reserves</b>	<b>4,035</b>				
- Available-for-sale securities	238	A,B,C	238		
- Other	3,797	A,B,C	3,797		
<b>Total share capital and reserves</b>	<b>186,416</b>		<b>34,028</b>		<b>25,500</b>

(a) Possibility of utilization: A = for share capital increases, B = for absorption of losses, C = for distribution to shareholders.

(\*) In the previous three years, "Retained earnings" was used to increase share capital, which rose from €105,400 in 2010 to €130,900 in 2013.

Changes in reserves are as follows:

	Legal Reserve	Retained earnings	Other reserves: Extraordinary	Total
<b>A. Beginning balance</b>	<b>19,044</b>	<b>29,845</b>	<b>88</b>	<b>48,978</b>
<b>B. Increases</b>				
B.1 Appropriation of profit	2,445	58		2,503
B.2 Other changes			1	1
<b>C. Decreases</b>				
C.1 Use for the year				
- absorption of losses				
- distribution				
- transfer to share capital				
C.2 Other changes				
<b>D. Ending balance</b>	<b>21,489</b>	<b>29,904</b>	<b>89</b>	<b>51,482</b>

#### **Legal reserve**

The increase in the legal reserve of €2,445 thousand compared to the prior year is due to the appropriation of the profit for the year ended December 31, 2013, as approved by the ordinary shareholders' meeting of Banca Farmafactoring held on May 6, 2014.

#### **Retained earnings**

The increase in retained earnings of €36 thousand compared to the prior year is due to the appropriation of the profit for the year ended December 31, 2013, approved by the ordinary shareholders' meeting of Banca Farmafactoring held on May 6, 2014. Of that amount €22 thousand refers to the profit of Farmafactoring España.

#### **Valuation reserves**

"Valuation reserves" amount to €4,035 thousand and decreased by €184 thousand compared to December 31, 2013; they principally refer to the reserves for available-for-sale securities held in portfolio and the reserve relating to hedging derivatives.

*Other information**1. Guarantees provided and commitments*

<b>Transactions</b>	12.31.2014	12.31.2013
1) Financial guarantees provided to	22	22
a) Banks	22	22
b) Customers		
2) Commercial guarantees provided to		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds		
a) Banks		
i) usage certain		
ii) usage uncertain		
b) Customers	11,280	
i) usage certain		
ii) usage uncertain	11,280	
4) Underlying commitments for credit derivatives: sale of protection		
5) Assets used to guarantee obligations of third parties		
6) Other commitments		
<b>Total</b>	<b>11,302</b>	<b>22</b>

“Financial guarantees provided to - Banks” of €22 thousand refer to the commitment undertaken with Fondo Interbancario di Tutela dei Depositi.

Commitments for uncertain usage of €11,280 thousand refer to a commitment with a customer to purchase receivables that have already been identified.

## 2. Assets used to guarantee own liabilities and commitments

Portfolios	12.31.2014	12.31.2013
1. Financial assets held for trading		
2. Financial assets at fair value through profit or loss		
3. Available-for-sale financial assets	289,717	15,903
4. Held-to-maturity financial assets	744,262	
5. Due from banks		
6. Due from customers		
7. Property, plant and equipment		

“Available-for-sale financial assets” and “Held-to-maturity financial assets” consist of government securities used as collateral in operations with the ECB and in repos.

## 5. Asset management and brokerage on behalf of others

Type of services	Amount
<b>1. Management and brokerage on behalf of customers</b>	
a) Purchases	
1. settled	
2. unsettled	
b) Sales	
1. settled	
2. unsettled	
<b>2. Portfolio management</b>	
a) individual	
b) collective	
<b>3. Custody and administration of securities</b>	<b>1,296,000</b>
a) third party securities on deposit: relating to custodian bank activities (excluding portfolio management)	
1. securities issued by companies included in consolidation	
2. other securities	
b) third party securities on deposit (excluding portfolio management): other	
1. securities issued by companies included in consolidation	
2. other securities	
c) third party securities deposited with third parties	
d) owned securities deposited with third parties	1,296,000
<b>4. Other</b>	

The amount refers to the nominal amount of owned securities classified in the AFS and HTM portfolios.

## Part C - Consolidated Income Statement

All amounts are expressed in thousands of euros.

### Section 1 – Interest – Items 10 and 20

#### 1.1 Interest and similar income: breakdown

€252,550 thousand

Items/Type	Debt securities	Loans	Other transactions	2014	2013
1. Financial assets held for trading					
2. Financial assets at fair value through profit or loss					
3. Available-for-sale financial assets	941			941	1,548
4. Held-to-maturity financial assets	3,118			3,118	0
5. Due from banks		986		986	1,560
6. Due from customers		73,743	173,762	247,504	151,533
7. Hedging derivatives					
8. Other assets					2
<b>Total</b>	<b>4,059</b>	<b>74,729</b>	<b>173,762</b>	<b>252,550</b>	<b>154,643</b>

#### 1.3 Interest and similar income: other information

Interest income on “Available-for-sale financial assets” of €941 thousand and “Held-to-maturity financial assets” of €3,118 thousand is on the government securities purchased by Banca Farmafactoring in 2014 to protect against liquidity risk and to optimize the cost of money.

The criterion for recognition of such interest reflects the amortized cost method, as a result of which the income connected with such assets is recognized in relation to the return deriving from the expected cash flows.

Interest income “Due from banks – Loans” refers to the temporary cash on hand in the Group’s bank current accounts.

Interest income on “Due from customers – Loans” totals €73,743 thousand and consists largely of fees and commissions charged to the assignors for the purchase of non-recourse receivables. The principle used for charging these fees and commissions reflects the criterion for the measurement of non-recourse receivables purchased at “amortized cost”, in accordance with IAS 39, as a result of which the income connected with such assets is recognized in relation to the return originating from the expected cash flows.

Interest income on "Due from customers – Other transactions" includes €173,447 thousand of interest on late payments, of which €60,051 thousand was collected during the year, and €113,396 thousand came from the recognition of non-recurring income due to the change in the method used to estimate the provision for interest on late payments and the difference on maturity commissions due to that change in estimate.

Until last year receivables for interest on late payments were completely written off through a provision account recognized as a deduction from the asset and interest accrued but not yet invoiced to the debtor was not recognized. When the actual interest on late payments was collected, this writeoff was reversed and the interest on late payments was credited to the income statement on the basis of the percentage of recovery effectively realized. Such recognition did not provide a timely matching of costs and revenues.

During 2014, the Group acquired analysis instruments which enabled it to obtain a time series of data such as to permit the calculation of a reliable estimate of the probable amount of interest on late payments that will be collected and the estimated collection times.

Accordingly, starting from the financial statements for the year ended December 31, 2014, the companies of the Banking Group applied the percentage of recovery to receivables for interest on late payments calculated as a result of the above time series analysis.

The weighted average trend of the collection percentages over the years, forming the time series considered, is more than 40% and, therefore, prudently, this percentage was used for the estimate of the amount of interest on late payments that will be collected in the future and which is recorded under receivables according to the amortized cost method with the date of collection estimated at 1800 days from the due date of the purchased invoice.

With regard to the receivables purchased by Farmafactoring España, the average percentage recovery of interest on late payments observed tends to be equal to 100% and is collected in less time on average than receivables from the Italian Health Service. Nevertheless, since the sample size observed is limited, it was prudently decided to positively consider the utilization of the same recovery rate of 40% and the same collection time of 1800 days as used by Banca Farmafactoring.

The change in the method of estimating interest on late payments led to the recognition in 2014 of the effects of such change, both on the receivables recognized in 2014 and on the receivables recorded in past years. This resulted in the recognition of the non-recurring income indicated above. In future years, the income statement will only include the recognition of interest on late payments on an accrual basis for the individual years of reference.

**1.4 Interest and similar expenses: breakdown**

€44,240 thousand

Items/Type	Loans	Securities	Other transactions	2014	2013
1. Due to central banks	223			223	
2. Due to banks	24,398			24,398	33,403
3. Due to customers	3,491		10,521	14,012	18,632
4. Securities issued		5,110		5,110	
5. Financial liabilities held for trading			461	461	1,609
6. Financial liabilities at fair value through profit or loss					
7. Other liabilities and provisions			35	35	
8. Hedging derivatives					
<b>Total</b>	<b>28,112</b>	<b>5,110</b>	<b>11,017</b>	<b>44,240</b>	<b>53,644</b>

Interest expenses referring to amounts “Due to banks - Loans” relate to loans received from the banking system.

Interest expenses on “Due to customers - Loans” mainly refer to loans secured from factoring companies, Cassa Depositi e Prestiti, and amounts due to assignors in relation to the different currency with which the sums collected are credited to the respective bank current accounts, and, for approximately €510 thousand, to interest expenses relating to Banca Farmafactoring’s online account, Conto Facto.

Interest expenses referring to “Due to customers – Other transactions” include expenses on securitization transactions.

Interest expenses on “Securities issued” refer to expenses on Banca Farmafactoring’s three-year bonds of €300 million issued in June 2014.

Total interest expenses decreased by approximately €9.4 million compared to 2013. This decrease principally comes from the reduction in the cost of money, the renegotiation of certain lines of financing and the diversification of sources of funding.



## Section 2 – Fees and commissions – Items 40 and 50

### 2.1 Fee and commission income: breakdown

€9,444 thousand

Types of services /Amounts	2014	2013
a) guarantees provided		
b) credit derivatives		
c) management, brokerage and consulting services:		
1. securities trading		
2. currency trading		
3. portfolio management		
3.1. individual		
3.2. collective		
4. custody and administration of securities		
5. custodian bank		
6. placement of securities		
7. receipt and transmission of orders		
8. advisory services		
8.1 related to investments		
8.2 related to financial structure		
9. distribution of third-party services		
9.1. portfolio management		
9.1.1. individual		
9.1.2. collective		
9.2. insurance products		
9.3. other products		
d) collection and payment services	9,301	10,251
e) securitization servicing		
f) factoring		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services	143	21
<b>Total</b>	<b>9,444</b>	<b>10,272</b>

**2.2 Fee and commission expenses: breakdown**

€1,205 thousand

Services/Amounts	2014	2013
a) guarantees received	1	10
b) credit derivatives		
c) management and brokerage services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities		
5. placement of financial instruments		
6. off-site distribution of financial instruments, products and services		
d) collection and payment services		
e) other services	1,204	1,098
<b>Total</b>	<b>1,205</b>	<b>1,108</b>

#### Section 4 – Gains/losses on trading – Item 80

##### 4.1 Gains/losses on trading: product breakdown

€497 thousand

Items/Income components	Gains (A)	Gains on trading (B)	Losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
<b>1. Financial assets held for trading</b>					
1.1 Debt securities					
1.2 Equity securities					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other assets					
<b>2. Financial liabilities held for trading</b>					
2.1 Debt securities					
2.2 Amounts due					
2.3 Other liabilities					
<b>3. Financial assets and liabilities: exchange differences</b>					
<b>4. Derivatives</b>					
4.1 Financial derivatives:					
- on debt securities and interest rates		497			497
- on equity instruments and share indexes					
- on currency and gold					
- other					
4.2 Credit derivatives					
<b>Total</b>		<b>497</b>	<b>0</b>	<b>0</b>	<b>497</b>

*Fair value changes in derivatives*

Item	Carrying amount	Change
<b>Financial assets held for trading</b>		
Amount at December 31, 2013	5	
Amount at December 31, 2014	0	(5)
<b>Financial liabilities held for trading</b>		
Amount at December 31, 2013	548	
Amount at December 31, 2014	46	502
<b>Gains/losses on trading</b>		<b>497</b>

*Section 5 - Fair value adjustments in hedge accounting - Item 90*

€7 thousand

*5.1 Fair value adjustments in hedge accounting: breakdown*

Components/Amounts	2014	2013
<b>A. Gains on:</b>		
A.1 Fair value hedging instruments	-	-
A.2 Hedged financial assets (in fair value hedge relationship)	-	-
A.3 Hedged financial liabilities (in fair value hedge relationship)	-	-
A.4 Cash flow hedging derivatives	-	-
A.5 Assets and liabilities denominated in currency	-	-
<b>Total gains on hedging activities (A)</b>	-	-
<b>B. Losses on:</b>		
B.1 Fair value hedging instruments	-	-
B.2 Hedged financial assets (in fair value hedge relationship)	-	-
B.3 Hedged financial liabilities (in fair value hedge relationship)	-	-
B.4 Cash flow hedging derivatives	7	-
B.5 Assets and liabilities denominated in currency	-	-
<b>Total losses on hedging activities (B)</b>	<b>7</b>	-
<b>C. Net fair value adjustments in hedge accounting (A - B)</b>	<b>(7)</b>	-

This item includes the recognition of the “ineffective portion” of cash flow hedges. The Group uses interest rate swaps (IRS) to hedge the rates applied to its funding.

## Section 6 - Gains/losses on disposal/repurchase - Item 100

€953 thousand

### 6.1 Gains/losses on disposal/repurchase: breakdown

Item/Components	2014			2013		
	Gains	Losses	Net	Gains	Losses	Net
<b>Financial assets</b>						
1. Due from banks						
2. Due from customers						
3. Available-for-sale financial assets						
3.1 Debt securities	953		953			0
3.2 Equity securities						
3.3 Units in investment funds						
3.4 Loans						
4. Held-to-maturity financial assets						
<b>Total assets</b>	<b>953</b>		<b>953</b>			<b>0</b>
<b>Financial liabilities</b>						
1. Due to banks						
2. Due to customers						
3. Securities issued						
<b>Total liabilities</b>						

The amount refers to the gain on the sale of government securities classified in the AFS portfolio.

**Section 8 - Impairment losses/reversals - Item 130**

€43 thousand

**8.1 Impairment losses/reversals on receivables and loans: breakdown**

Transactions/ Components	Impairment losses			Impairment reversals				2014	2013
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
<b>A. Due from banks</b>									
- loans									
- debt securities									
<b>B. Due from customers</b>									
Impaired receivables purchased									
- loans									
- debt securities									
Other receivables									
- loans	(260)	(122)	(63)		489				
- debt securities									
<b>C. Total</b>	<b>(260)</b>	<b>(122)</b>	<b>(63)</b>		<b>489</b>		<b>43</b>	<b>(1,136)</b>	

Key: A = from interest, B = other reversals

### Section 11 - Administrative expenses - Item 180

€35,954 thousand

#### 11.1 Personnel costs: breakdown

€14,828 thousand

Types of expenses/Amounts	2014	2013
<b>1) Employees</b>		
a) wages and salaries	9,284	7,857
b) social security charges	2,472	2,231
c) employee severance indemnity charges	0	0
d) pension charges	0	0
e) provision for employee severance indemnity	274	253
f) provision for pension and similar obligations		
- defined contribution	0	0
- defined benefit	0	0
g) payments to external supplementary pension funds		
- defined contribution	98	72
- defined benefit	0	0
h) costs relating to share-based payments	0	0
i) other benefits to employees	827	769
<b>2) Other employees in service</b>	75	33
<b>3) Directors and statutory auditors</b>	1,797	2,013
<b>4) Early retirement costs</b>	0	0
<b>Total</b>	<b>14,828</b>	<b>13,227</b>

**11.2 Average number of employees by category**

Employees

number

Category	Average number 2014	Average number 2013
Executives	9	8
Supervisors	48	35
Remaining staff	76	67
<b>Total</b>	<b>133</b>	<b>110</b>

Since the Spanish banking contract is not the same as the Italian contract, the employees of Farmafactoring España S.A. have conventionally been divided among the three categories of executives, supervisors and remaining staff.

Other staff

Traineeships: 9

**11.4 Other benefits to employees**

The amount of €827 thousand refers principally to expenses incurred for training, insurance for employees and meal tickets.

**11.5 Other administrative expenses: breakdown**

€21,126 thousand

Details	2014	2013
Legal fees	4,444	4,101
Data processing costs	1,498	1,096
External receivables management services	990	973
Compensation to Supervisory Body	129	83
Legal fees for receivables under management	1,026	928
Notary fees	387	390
Notary fees to be recovered	67	100
Corporate hospitality and donations	775	827
Maintenance expenses	728	875
Non-deductible VAT	2,194	1,570
Other indirect taxes and duties	239	186
Consulting fees	3,966	2,677
Office operating expenses	959	687
Other expenses	3,724	2,557
<b>Total</b>	<b>21,126</b>	<b>17,051</b>



Other administrative expenses include legal fees for €1,026 thousand and notary fees for €67 thousand incurred on behalf of the assignor companies, and which were fully recovered and included in other operating income.

Details of costs for outsourced services included in "Other administrative expenses" in 2014 mainly include the following:

<b>Details</b>	2014
Fees to independent auditors	189
Internal audit fees (external firm)	72
Data processing fees (external firms)	1,559
Collection fees (external firms)	984
Organization services fees (external firm)	198

### **Section 12 - Net provisions for risks and charges - Item 190**

€1,280 thousand

#### **12.1 Net provisions for risks and charges: breakdown**

The provision charge compared to the prior year shows the following breakdown:

<b>Details</b>	2014	2013
Provision for pension and similar obligations	1,280	631
Other provisions		102
<b>Total</b>	<b>1,280</b>	<b>734</b>

The provision charge to the "Provision for pension and similar obligations" refers to deferred employee benefits.

**Section 13 - Net adjustments to/writebacks on property, plant and equipment - Item 200****13.1 Net adjustments to/writebacks on property, plant and equipment: breakdown**  
€1,053 thousand

Items/Net adjustments/ writebacks	Depreciation (a)	Impairment losses (b)	Impairment reversals (c)	Net result (a + b - c)
A. Property plant and equipment				
A.1 Owned assets				
- used in the business	1,053			1,053
- held for investment				
A.2 Leased assets acquired under finance leases				
- used in the business				
- held for investment				
<b>Total</b>	<b>1,053</b>			<b>1,053</b>

**Section 14 - Net adjustments to/writebacks on intangible assets - Item 210****14.1 Net adjustments to/writebacks on intangible assets: breakdown**  
€689 thousand

Items/Net adjustments/ writebacks	Depreciation (a)	Impairment losses (b)	Impairment reversals (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned assets				
- generated internally				
- other	689			689
A.2 Leased assets acquired under finance leases				
<b>Total</b>	<b>689</b>			<b>689</b>

### Section 15 - Other operating income/expenses - Item 220

€7,032 thousand

#### 15.1 Other operating expenses: breakdown

Details	2014	2013
Prior period items	(278)	(60)
Rounding and rebates	(69)	(71)
Other expenses	(13)	(0)
<b>Total</b>	<b>(360)</b>	<b>(131)</b>

#### 15.2 Other operating income: breakdown

Details	2014	2013
Recovery of legal fees for purchases of non-recourse receivables	1,771	2,412
Recovery of legal fees for management of receivables	1,026	928
Receivables realized at other than face value	3,483	2,134
Prior year items	617	853
Recovery of notary expenses from assignors	68	100
Other income	428	313
<b>Total</b>	<b>7,392</b>	<b>6,740</b>

**Section 20 – Income taxes on profit from continuing operations – Item 290**

€61,714 thousand

**20.1 Income taxes on profit from continuing operations: breakdown**

Components/Sector	2014	2013
1. Current income taxes	30,659	35,337
2. Adjustment to current income taxes of prior years		
3. Reduction in current income taxes for the year		
3. bis Reduction in current taxes for the year due to tax credit under Law 214/2011		
4. Changes to deferred tax assets	25	637
5. Changes to deferred tax liabilities	31,030	(350)
<b>Income taxes for the year</b>	<b>61,714</b>	<b>35,624</b>

**20.2 Reconciliation of theoretical tax and effective tax expense**

The following reconciliation of theoretical tax and effective tax expense refers only to the parent Banca Farmafactoring S.p.A..

Details	IRES	IRAP
Taxable profit used for purposes of tax calculations	182,979	190,947
<b>Theoretical tax expense 27.5% IRES – 5.57% IRAP</b>	<b>50,319</b>	<b>10,636</b>
Non-deductible permanent differences	889	1,801
Deductible IRAP quota	(809)	
Temporary differences taxable in future years	(111,291)	
Temporary differences deductible in future years	1,913	
Reversal of temporary differences referring to future years	(994)	(271)
<b>Taxable profit</b>	<b>72,687</b>	<b>192,477</b>
<b>Current income taxes for the year: 27.5% IRES – 5.57% IRAP</b>	<b>19,989</b>	<b>10,721</b>

## Part D - Consolidated Comprehensive Income

### ANALYTICAL STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Item	Before tax effect	Tax effect	After tax effect
<b>10. Profit for the year</b>	X	X	<b>124,377,536</b>
<b>Other comprehensive income that will not be reclassified subsequently to the income statement:</b>			
20. Property, plant and equipment			
30. Intangible assets			
40. Defined benefit plans	1,080	(297)	783
50. Non-currents assets classified as held for sale			
60. Portion of valuation reserves from investments accounted for using the equity method			
<b>Other comprehensive income that will be reclassified subsequently to the income statement:</b>			
<b>70. Hedges of net investments in foreign subsidiaries:</b>			
a) fair value changes			
b) reclassification to income statement			
c) other changes			
<b>80. Exchange differences:</b>			
a) changes in value			
b) reclassification to income statement			
c) other changes			
<b>90. Cash flow hedges:</b>			
a) fair value changes	(39,846)	13,177	(26,669)
b) reclassification to income statement			
c) other changes			
<b>100. Available-for-sale financial assets:</b>			
a) fair value changes	355,349	(117,514)	237,834
b) reclassification to income statement			
- impairment losses			
- gains/losses on disposal			
c) other changes			
<b>110. Non-currents assets classified as held for sale:</b>			
a) fair value changes			
b) reclassification to income statement			
c) other changes			
<b>120. Portion of valuation reserves from investments accounted for using the equity method:</b>			
a) fair value changes			
b) reclassification to income statement			
- impairment losses			
- gains/losses on disposal			
c) other changes			
<b>130. Total Other comprehensive income</b>	<b>316,583</b>	<b>(104,633)</b>	<b>211,948</b>
<b>140. Comprehensive income (10+130)</b>	<b>316,583</b>	<b>(104,633)</b>	<b>124,589,484</b>
<b>150. Attributable to non-controlling interests</b>			<b>0</b>
<b>160. Attributable to owners of the parent</b>	<b>316,583</b>	<b>(104,633)</b>	<b>124,589,484</b>

## Part E - Information on Risks and related Risk Management Policies

*All amounts are expressed in thousands of euros.*

### **Introduction**

The Banking Group has adopted a system of rules, practices and processes of corporate governance and adequate mechanisms for the management and control of its operations in order to mitigate the risks to which it is exposed. This governance is part of the organization and system of internal controls and is aimed at ensuring a management grounded in the canons of efficiency, effectiveness and correctness, covering every type of risk consistently with the characteristics, dimensions and complexity of the business activities carried out.

With this in mind, the Group has thus formalized its risk management policies, periodically reviews the policies to ensure their effectiveness over time, and monitors, continually, the proper functioning of the processes for the management and control of risks.

These policies define:

- the governance of the risks and the responsibilities of the Organizational Units involved in the management process;
- the identification of the risks to which the Group is exposed, the measuring and stress testing methods and the information flows that summarize the monitoring activities;
- the annual assessment process on the adequacy of internal capital;
- the activities for the assessment of the prospective adequacy of capital associated with the strategic planning process.

The corporate bodies of the Bank, as the parent of the Banca Farmafactoring S.p.A. Banking Group, define the risk governance and management model at the Group level, taking into account the specific type of business and the related profiles of risk characterizing the entire Group, for the purpose of creating an integrated and consistent risk management policy. Within this environ, the corporate bodies of the Group parent carry out functions entrusted to them with reference not only as it applies to its circumstances but also its evaluation of the overall operations of the Group and the risks to which it is exposed and involving, as needed, the corporate bodies of the subsidiary in the decisions taken as to the procedures and policies of risk management.

At the level of Group, the Risk Management and Anti-Money Laundering Operational Unit cooperates in the process to draw up and implement the risk governance policies through an adequate managing process of the risks themselves. The person in charge is not involved in the operating activities which he/she is asked to control, and his/her duties, and the relative responsibilities are governed by a specific internal Regulation.

The Risk Management Function has, among other, responsibility for:

- cooperating with the corporate bodies in defining the overall system for the management of risks;
- ensuring adequate risk management processes through the introduction and maintenance of suitable systems for the management of risks in order to identify, measure, control or attenuate all the relevant risks;

- ensuring the assessment of the capital absorbed and the relative adequacy, by defining the processes and procedures to meet every type of present and future risk, which take into account the strategies and changes of the context;
- overseeing the functioning of the process for the management of risk and ascertaining that it is being followed;
- monitoring the adequacy and effectiveness of the actions taken to resolve the weaknesses found in the risk management system;
- submitting periodical reports to the corporate bodies on the activities carried out and conferring with them on matters of risk management.

## **SECTION 1 – RISKS OF THE BANKING GROUP**

### **1.1 - Credit risk**

#### **Qualitative information**

##### **1. General aspects**

Factoring activities, disciplined by the Italian Civil Code (Book IV – Heading V, articles 1260–1267) and by Law 52 of February 21, 1991 and subsequent laws, consist of a plurality of financial services articulated in various ways through the sale of with recourse and non-recourse trade receivables. A particular characteristic of factoring transactions is the involvement of three different parties:

- Factor (assignee)
- Client (assignor)
- Debtor (assigned)

##### **2. Credit risk management policies**

###### **2.1 Organization**

In view of the above considerations, the assessment of a factoring transaction must be conducted through the analysis of a multiplicity of factors: from the degree of fragmentation of risk to the characteristics of the trade transaction underlying the credit quality, from the reimbursement capability of the customer assignor to the solvency of the assigned debtors.

The monitoring and management of credit risk starts with a preliminary background check for credit lines, before a factoring service is offered. The various corporate functions work together and coordinate with meticulous synergy in order to provide an analytical and subjective assessment of the counterparties, both from a quantitative standpoint (current economic and financial situation, in the past and prospectively) and from a qualitative point of view (level of management, competitiveness, prospects of the product and potential credit volumes to be managed).

The guidelines and the procedures for monitoring and controlling credit risk are contained in the “Credit Regulation” in force, approved by the board of directors on February 23, 2004, and subsequent updates. A further organizational control to meet credit risk is represented by the “Credit Control Regulation”, approved by the board of directors on July 21, 2009, and subsequent updates, which describes the credit control process on the debtor and is an integral part of the of the “Credit Regulation”.

### **2.2 Management, measurement and control systems**

The assessment of credit risk is part of an overall analysis of the capital adequacy of the Banking Group in relation to the risks connected with lending.

With this in mind, the Group uses the "Standardized" approach for the measurement of credit risk, as indicated in Bank of Italy Circular 285 "Supervisory provisions for banks" and Circular 286 "Instructions for the preparation of regulatory reporting for banks and investment companies", both of December 17, 2013, and subsequent updates. This approach involves the division of the exposures into various portfolios according to the nature of the counterparty and the application of diversified weighted ratios to each portfolio.

In particular, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the specialized credit assessment agencies, ECAIs, or ECAs, to the individual States; for the "Supervised intermediaries" portfolio, the weighting depends on the rating of the State in which the supervised intermediary has its headquarters; for the "public sector entities" portfolio, the rules for weighting are the same as those for supervised intermediaries.

Starting from the reporting at June 30, 2013 the Banking Group adopted Dominion Bond Rating Service (DBRS) as the ECAI ratings agency.

The unsolicited rating of the Republic of Italy by DBRS is 'A low' and therefore the receivables exposure from the Public Administration fall in the Credit Quality Class of 2, with a risk weight equal to 50%.

The exposures of the Group are almost completely composed of receivables due from counterparties belonging to the Public Administration.

The Banking Group constantly maintains, as a capital requirement covering credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposure for credit risk.

$$\text{Capital requirement} = 8\% \text{ RWA}$$

The Risk-Weighted Amount is determined by the sum of the risk-weighted assets of the various classes.

On the basis of the above methodology, the consolidated capital requirement for credit risk at December 31, 2014 is equal to €52,831 thousand.

Moreover the "Credit Regulation" describes the stages of the process which the regulations of the sector have identified as components of the credit process:

- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the main risk factors, the principal activities carried out by the Bank are described as follows:

- receivables management only;
- non-recourse factoring;
- with recourse factoring.



Under "receivables management only", the credit risk is considerably reduced because it is limited to the Bank's exposure with the customer for the payment of the agreed fees and commissions, or the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process even if the credit line can be decided by a body that is not a collegiate body.

Non-recourse factoring by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line is conducted with the utmost attention and the decision-making power is reserved for the bodies that can provide approval.

Credit risk management, therefore, besides following internal corporate regulations must also abide by external regulations (Bank of Italy Circular 285 "Supervisory provisions for banks" and 286 "Instructions for the preparation of regulatory reporting for banks and investment companies", and subsequent updates, with regard to concentrations of risk. In particular:

- a "large exposure" is defined as every position equal to or greater than 10% of regulatory capital;
- for banking groups and banks not belonging to a banking group each risk-weighted position must be within the limit of 25% of regulatory capital.

In view of the fact that the Banking Group has an exposure that is almost completely composed of receivables due from the Public Administration, the portfolio risk is to be considered limited.

Furthermore, Banca Farmafactoring files a monthly report with the Central Credit Register (Bank of Italy Circular 139 of February 11, 1991 – 14<sup>th</sup> update of April 29, 2011 "Central Credit Register: Instructions for Credit Intermediaries") providing information on the financial debt of the debtor over the course of time and on the agreed/utilized ratio (which expresses the financial commitment of the company and the debt margins that it has with the system).

#### **Qualitative assessment of receivables**

An impairment test is performed on the receivables portfolio in order to identify any impairment of the financial assets.

This analysis made it possible to distinguish between performing and non-performing receivables; included in the non-performing category are financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

#### **Performing receivables**

The measurement of performing receivables includes receivables from customers which, although past due more than 90 days, show no objective indication of impairment at an individual level.

This representation is consistent with the criterion of measuring non-recourse receivables purchased at "amortized cost" which, in fact, is based on discounting estimated future cash flows according to an estimate of the time to collection.

Although the receivables are due almost entirely from the Public Administration, as in previous years, at the date of the interim and year-end financial statements, the Bank, in accordance with IAS 39, carried out a collective impairment test of performing receivables in order to monitor the quantitative content.

In order to determine the Loss Given Default (LGD), the Bank assumed the value proposed by the "Basel Accord" for credits not covered by real guarantees from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.

The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs/AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong.

Such analysis and the manner of calculation were formulated when the transition was made to international accounting standards. Such calculation has never produced significant data since the PD attributed to the Regions based on the rating led to a modest impairment according to the impairment test.

Starting from July 2012, the input parameters for the collective impairment model led, as a result of the continual downgrades of the Republic of Italy and the consequent downgrade of the Regions in the fourth quarter of 2011, to a higher PD calculation compared to the past and, consequently, to a collective impairment loss that is no longer negligible.

Specifically, at December 31, 2014, the impairment test indicated an impairment loss of about €2 million, in line with the prior year.

#### ***Non-performing receivables***

In accordance with IAS 39, and for purposes of an analytical evaluation, the Bank carried out an assessment of the financial assets classified as non-performing receivables in order to identify any objective impairment of individual positions.

Non-performing receivables of the Banking Group consist of non-performing receivables of Banca Farmafactoring, whose value, net of individual impairment losses, amounts to €2,936 thousand.

#### ***2.3 Credit risk mitigation techniques***

In order to render non-recourse receivables purchased compatible with the derecognition principle, the risk mitigation clauses, which could have in some way invalidated the effective transfer of risks and rewards, have been eliminated from the relative contracts.

#### ***2.4 Impaired financial assets***

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 "*The Financial Statements of Banks: layout and preparation*", and subsequent updates, the Group has divided its due from customers between "performing" and "impaired".

The "Exposures/Impaired assets" correspond to the sum of:

- Past due, for a net amount of €9,779 thousand;
- Restructured exposures, not applicable;
- Doubtful, for a net amount of €62 thousand;
- Non-performing, for a net amount of €2,936 thousand.

The definitions of these categories are set out in the Regulatory Reporting process, and contained in Bank of Italy Circular 272 of July 30, 2008 "*Matrix Accounts*", and subsequent updates.

### *Past due exposures*

These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2014 are past due more than 90 days.

In particular, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payment for any debt positions due to the bank for more than 90 days.

At December 31, 2014, total net past due receivables amount to €9,779 thousand.

### *Restructured exposures*

These are exposures for which a bank, owing to the deterioration of the economic and financial conditions of the debtor, agrees to modify the original contract terms which give rise to a loss.

At December 31, 2014, the Group does not have any positions classified as restructured exposures.

### *Doubtful*

These are exposures with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.

Doubtful receivables also include so-called "objective" doubtful receivables, that is, exposures that present the following conditions:

- do not belong to the "central administrations and central banks", "territorial entities" and "public sector entities" portfolios;
- are past due on a continuing basis more than 270 days;
- the total amount of past due receivables represents a portion equal to at least 10% of the entire exposure.

At December 31, 2014, total net doubtful receivables amount to €62 thousand and consist solely of "objective" doubtful receivables.

### *Non-performing*

These refer to exposure with parties that are in a state of insolvency or in basically similar situations, regardless of any provisions for loss set aside by the Bank.

At December 31, 2014, the total of non-performing receivables, net of writedowns due to estimated impairment losses, amounts to €2,936 thousand, in line with the prior year.

This amount corresponds to the exposure with the debtor Fondazione Monte Tabor in liquidation and in a composition agreement with creditors, which, during 2013, made the payment for first and second distributions for a total of approximately €9.6 million.

After the agreement was recognized by the composition of creditors (approved by the meeting of creditors on March 19, 2012), for the principal portion as well as the late interest portion, which was nevertheless already completely written off, the company decided not to make any provision on the receivables since the total of the collections that will derive from the agreement are in line with the outstanding amount of principal.

In 2014 another debtor and assignor were considered non-performing for an amount of approximately €570 thousand, which has not been written down because it is covered by guarantees.

The other non-performing positions of €2.4 million were completely off against the provision account and their net book value is now zero.

The provision account for interest on late payments on non-performing positions amounts to €14.9 million and is completely written off. This refers mainly to the position with Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

Unlike the considerations made for “Impaired assets”, the valuation of past due and doubtful receivables is carried out at the level of portfolio since these positions do not display objective elements of individual impairment loss.

#### ***Quantitative information***

This section, pursuant to Bank of Italy Circular 262 of December 22, 2005 – “*The Financial Statements of Banks: layout and preparation*” and subsequent updates, provides information solely in reference to the Banking Group composed of Banca Farmafactoring and Farmafactoring España.

In the cases expressly indicated, in which the aggregate of the companies included in consolidation should be considered, the data is reported also for the special purpose entities FF Finance, Farmafactoring SPV I and Farmafactoring SPV II.

In the tables that refer only to the Banking Group, the data is reported gross of the transactions with the other companies included in the scope of consolidation.

## A. Credit Quality

### A.1 Impaired and performing exposures: amounts, impairment losses, changes, breakdown by business activity/region

#### A.1.1 Breakdown of financial assets by portfolio and credit quality (carrying amount)

Portfolio/Quality	Banking Group						Other companies		Total
	Non-performing	Doubtful	Restructured exposures	Impaired Past due	Not impaired Past due	Other Assets	Imp. Past due	Other Assets	
1. Financial assets held for trading									
2. Available-for-sale financial assets						370,156			<b>370,156</b>
3. Held-to-maturity financial assets						955,932			<b>955,932</b>
4. Due from banks						77,389	20,337		<b>97,726</b>
5. Due from customers	2,936	62		9,779	255,287	1,286,892			<b>1,554,957</b>
6. Financial assets measured at fair value through profit or loss									<b>0</b>
7. Financial assets held for sale									<b>0</b>
8. Hedging derivatives									
<b>Total 12.31.2014</b>	<b>2,936</b>	<b>62</b>		<b>9,779</b>	<b>255,287</b>	<b>2,690,369</b>		<b>20,337</b>	<b>2,978,771</b>
<b>Total 12.31.2013</b>	<b>2,368</b>	<b>195</b>		<b>5,803</b>	<b>180,745</b>	<b>1,147,661</b>		<b>207,747</b>	<b>1,544,519</b>

Included in due from customers are performing non-recourse receivables purchased, recorded in the name of the assigned debtor, which meet the conditions for derecognition, measured at amortized cost, in the amount of €1,523,383 thousand.

Among these are not impaired past due exposures – in accordance with the provisions of Bank of Italy Circular 272 of July 30, 2008 “Matrix Accounts”, and subsequent updates, for €255,287 thousand.

All of the purchases of non-recourse receivables refer to factoring transactions pursuant to Law 52/91.

## A.1.2 Breakdown of credit exposures by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific impair. losses	Net exposure	Gross exposure	Portfolio impair. loss	Net exposure	
<b>A. Banking Group</b>							
1. Financial assets held for trading							
2. Available-for-sale financial assets				370,156		370,156	370,156
3. Held-to-maturity financial assets				955,932		955,932	955,932
4. Due from banks				77,389		77,389	77,389
5. Due from customers	14,676	1,899	12,778	1,544,848	2,668	1,542,180	1,554,957
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
<b>Total A</b>	<b>14,676</b>	<b>1,899</b>	<b>12,778</b>	<b>2,948,325</b>	<b>2,668</b>	<b>2,945,657</b>	<b>2,958,434</b>
<b>B. Other companies included in consolidation</b>							
1. Financial assets held for trading							
2. Available-for-sale financial assets							
3. Held-to-maturity financial assets							
4. Due from banks				20,337		20,337	20,337
5. Due from customers							
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
<b>Total B</b>				<b>20,337</b>		<b>20,337</b>	<b>20,337</b>
<b>Total 12.31.2014</b>	<b>14,676</b>	<b>1,899</b>	<b>12,778</b>	<b>2,968,662</b>	<b>2,668</b>	<b>2,965,994</b>	<b>2,978,771</b>
<b>Total 12.31.2013</b>	<b>11,259</b>	<b>2,892</b>	<b>8,367</b>	<b>1,538,125</b>	<b>1,973</b>	<b>1,536,152</b>	<b>1,544,519</b>

A.1.3 Banking Group - Credit exposures with banks on and off-balance sheet: gross and net amounts

Exposure types/Amounts	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net Exposure
<b>A. ON-BALANCE SHEET EXPOSURE</b>				
a) Non-performing				
b) Doubtful				
c) Restructured exposures				
d) Impaired past due exposures				
e) Other assets	77,389			77,389
<b>TOTAL A</b>	<b>77,389</b>			<b>77,389</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
a) Impaired				
b) Other	22			22
<b>TOTAL B</b>	<b>22</b>			<b>22</b>
<b>TOTAL (A+B)</b>	<b>77,411</b>			<b>77,411</b>

A.1.6 Banking Group - Credit exposures with customers for receivables and loans on and off-balance sheet: gross and net amounts

Exposure types/Amounts	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net Exposure
<b>A. ON-BALANCE SHEET EXPOSURE</b>				
a) Non-performing	4,819	1,883		2,936
b) Doubtful	62			62
c) Restructured exposures				
d) Impaired past due exposures	9,795	16		9,779
e) Other assets	2,870,936		2,668	2,868,268
<b>TOTAL A</b>	<b>2,885,612</b>	<b>1,899</b>	<b>2,668</b>	<b>2,881,045</b>
<b>B. OFF-BALANCE SHEET EXPOSURE</b>				
a) Impaired				
b) Other	11,280			11,280
<b>TOTAL B</b>	<b>11,280</b>			<b>11,280</b>
<b>TOTAL (A+B)</b>	<b>2,896,892</b>	<b>1,899</b>	<b>2,668</b>	<b>2,892,325</b>

*A.1.7 Banking Group - Credit exposures with customers for receivables and loans: gross change in impaired exposures*

<b>Source/Category</b>	<b>Non-performing</b>	<b>Doubtful</b>	<b>Restructured exposures</b>	<b>Impaired Past due</b>
<b>A. Beginning gross impairments exposures</b>	<b>4,635</b>	<b>196</b>		<b>6,427</b>
- of which: receivables sold but not derecognized				
<b>B. Increases</b>	<b>596</b>	<b>37</b>		<b>8,041</b>
B.1 transfer from performing exposures	427			6,788
B.2 transfers from other impaired exposures	142			8
B.3 other increases	28	37		1,245
<b>C. Decreases</b>	<b>413</b>	<b>171</b>		<b>4,673</b>
C.1 transfer to performing exposures				4,357
C.2 derecognitions				
C.3 collections	413	21		316
C.4 proceeds on sale				
C.4 <i>bis</i> losses on sale				
C.5 transfer to other impaired exposures		150		
C.6 other decreases				
<b>D. Ending gross impairments exposures</b>	<b>4,819</b>	<b>62</b>		<b>9,795</b>
- of which: exposures sold but not derecognized				



*A.1.8 Banking Group - Credit exposures with customers for receivables and loans: change in total impairment losses*

<b>Source/Category</b>	Non-performing	Doubtful	Restructured exposures	Impaired Past due
<b>A. Beginning total impairments losses</b>	<b>2,267</b>	<b>0</b>		<b>625</b>
- of which: receivables sold but not derecognized				
<b>B. Increases</b>	<b>56</b>	<b>1</b>		<b>675</b>
B.1 impairment losses	56	1		670
B.1 <i>bis</i> losses on sale				
B.2 transfer from other impaired exposures	0			1
B.3 other increases				4
<b>C. Decreases</b>	<b>441</b>	<b>1</b>		<b>1,283</b>
C.1 impairment reversals				
C.2 impairment reversals from collections	441			0
C.2 <i>bis</i> gains on sale				
C.3 derecognitions				
C.4 transfer to other impaired exposures		1		
C.5 other decreases		0		1,283
<b>D. Ending total impairments losses</b>	<b>1,883</b>	<b>0</b>		<b>16</b>
- of which: exposures sold but not derecognized				

**A.2 Classification of exposures according to external and internal ratings***A.2.1 Banking Group - Breakdown of credit exposures on and off-balance sheet by external rating class*

Exposures	External rating class						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
<b>A. On-balance sheet exposure</b>		2,886,494	21,938				50,002	<b>2,958,434</b>
<b>B. Derivatives</b>								
B.1 Financial derivatives								
B.2 Credit derivatives								
<b>C. Guarantees provided</b>							22	<b>22</b>
<b>D. Other commitments to disburse funds</b>							11,280	<b>11,280</b>
<b>E. Other</b>								
<b>Total</b>		<b>2,886,494</b>	<b>21,938</b>				<b>61,304</b>	<b>2,969,736</b>

This table includes, under "On balance sheet exposure", the following items in the assets of the financial statements relative to the Banking Group:

- item 40 - Available-for-sale financial assets (only debt instruments) – for €370,156 thousand;
- item 50 - Held to maturity financial assets – for €955,932 thousand;
- item 60 - Due from banks - for €77,389 thousand, equal to the balances on the bank current accounts that Banca Farmafactoring and Farmafactoring España have open at the end of the year;
- item 70 - Due from customers - for €1,554,957 thousand, equal to the sum of the outstanding exposures at December 31, 2014 of Banca Farmafactoring and Farmafactoring España, net of intergroup items, including the intragroup loan of €243,000 thousand.

In order to assign a credit quality rating to the debtors, the ratings compiled by the rating agency DBRS (the reference ECAI) were used. A reconciliation between the risk classes and the ratings by DBRS are as follows:

Credit Quality Class	ECAI DBRS Ratings Limited
1	AAA to AAL
2	AH to AL
3	BBBH to BBBL
4	BBH to BBL
5	BH to BL
6	CCC

### A.3 Breakdown of secured exposures by type of guarantee

#### A.3.2 Secured credit exposures with customers

	Net exposures	Collateral (1)				CLN	Guarantees (2)								Total (1)+(2)					
		Mortgages	Finance leases	Securities	Other collateral		Credit derivatives				Signature loan									
							Other credit derivatives				Governments and central banks	Other public entities	Banks	Other entities		Governments and central banks	Other public entities	Banks	Other entities	
							Governments and central banks	Other public entities	Banks	Other entities										
<b>1. Secured on-balance sheet credit exposures:</b>	529																			
1.1 fully secured	529																			
- of which impaired	427																			
1.2 partly secured																				
- of which impaired																				
<b>2. Secured off-balance sheet credit exposures:</b>																				
2.1 fully secured																				
- of which impaired																				
2.2 partly secured																				
- of which impaired																				

## B. Distribution and concentration of credit exposures

### B.1 Banking Group - Distribution by segment of credit exposures with customers on and off-balance sheet (carrying amount)

Exposures/Counterparties	Governments			Other public sector entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
<b>A. On-balance sheet exposure</b>						
A.1 Non-performing				110	576	
A.2 Doubtful						
A.3 Restructured exposures						
A.4 Past due exposures	5,247	9		3,284	5	
A.5 Other exposures	1,435,839		179	1,386,763		2,446
<b>Total A</b>	<b>1,441,086</b>	<b>9</b>	<b>179</b>	<b>1,390,157</b>	<b>581</b>	<b>2,446</b>
<b>B. Off-balance sheet exposure</b>						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures						
<b>Total B</b>						
<b>Total (A+B) 2014</b>	<b>1,441,086</b>	<b>9</b>	<b>179</b>	<b>1,390,157</b>	<b>581</b>	<b>2,446</b>
<b>Total (A+B) 2013</b>	<b>93,312</b>		<b>20</b>	<b>1,113,514</b>	<b>1,580</b>	<b>1,952</b>

Exposures/Counterparties	Financial companies			Insurance companies		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
<b>A. On-balance sheet exposure</b>						
A.1 Non-performing						
A.2 Doubtful						
A.3 Restructured exposures						
A.4 Past due exposures						
A.5 Other exposures	13,588		1			
<b>Total A</b>	<b>13,588</b>		<b>1</b>			
<b>B. Off-balance sheet exposure</b>						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures	11,280					
<b>Total B</b>	<b>11,280</b>					
<b>Total (A+B) 2014</b>	<b>24,868</b>		<b>1</b>			
<b>Total (A+B) 2013</b>	<b>28,949</b>					

Exposures/Counterparties	Non-financial companies			Other entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
<b>A. On-balance sheet exposure</b>						
A.1 Non-performing	427	851		2,400	456	
A.2 Doubtful				62		
A.3 Restructured exposures						
A.4 Past due exposures	623	1		625	1	
A.5 Other exposures	23,701		38	8,376		5
<b>Total A</b>	<b>24,751</b>	<b>852</b>	<b>38</b>	<b>11,463</b>	<b>457</b>	<b>5</b>
<b>B. Off-balance sheet exposure</b>						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures						
<b>Total B</b>						
<b>Total (A+B) 2014</b>	<b>24,751</b>	<b>852</b>	<b>38</b>	<b>11,463</b>	<b>457</b>	<b>5</b>
<b>Total (A+B) 2013</b>	<b>2,421</b>	<b>914</b>		<b>7,622</b>	<b>398</b>	<b>0</b>

**B.2 Banking Group - Distribution by geographical area of credit exposures with customers for receivables and loans on and off-balance sheet (carrying amount)**

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
<b>A. On-balance sheet exposure</b>										
A.1 Non-performing	2,936	1,883								
A.2 Doubtful	62									
A.3 Restructured exposures										
A.4 Past due exposures	9,779	16								
A.5 Other exposures	2,598,990	2,638	269,278	30						
<b>Total A</b>	<b>2,611,767</b>	<b>4,537</b>	<b>269,278</b>	<b>30</b>						
<b>B. Off-balance sheet exposure</b>										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures	11,280									
<b>Total B</b>	<b>11,280</b>									
<b>Total (A+B) 2014</b>	<b>2,623,047</b>	<b>4,537</b>	<b>269,278</b>	<b>30</b>						
<b>Total (A+B) 2013</b>	<b>1,199,666</b>	<b>4,865</b>	<b>46,152</b>							

Exposures/ Geographical areas	Northwest Italy		Northeast Italy		Central Italy		South Italy and Islands	
	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses
<b>A. On-balance sheet exposure</b>								
A.1 Non-performing	2,400	385	427		110	1,152		346
A.2 Doubtful	33	0			29	0		
A.3 Restructured exposures								
A.4 Past due exposures	625	1	10	0	6,902	11	2,242	4
A.5 Other exposures	191,079	285	107,645	159	1,638,446	1,117	661,821	1,077
<b>Total A</b>	<b>194,137</b>	<b>671</b>	<b>108,081</b>	<b>159</b>	<b>1,645,486</b>	<b>2,281</b>	<b>664,063</b>	<b>1,426</b>
<b>B. Off-balance sheet exposure</b>								
B.1 Non-performing								
B.2 Doubtful								
B.3 Other impaired assets								
B.4 Other exposures	11,280							
<b>Total B</b>	<b>11,280</b>							
<b>Total (A+B) 2014</b>	<b>205,417</b>	<b>671</b>	<b>108,081</b>	<b>159</b>	<b>1,645,486</b>	<b>2,281</b>	<b>664,063</b>	<b>1,426</b>
<b>Total (A+B) 2013</b>	<b>160,876</b>	<b>1,046</b>	<b>114,919</b>	<b>206</b>	<b>482,828</b>	<b>2,438</b>	<b>441,043</b>	<b>1,175</b>



**B.3 Banking Group - Geographical breakdown of credit exposures with banks on and off-balance sheet (carrying amount)**

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net expos.	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
<b>A. On-balance sheet exposures</b>										
A.1 Non-performing										
A.2 Doubtful										
A.3 Restructured exposures										
A.4 Past due exposures										
A.5 Other exposures	74,718		2,671							
<b>Total A</b>	<b>74,718</b>		<b>2,671</b>							
<b>B. Off-balance sheet exposures</b>										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures	22									
<b>Total B</b>	<b>22</b>									
<b>Total (A+B) 2014</b>	<b>74,740</b>		<b>2,671</b>							
<b>Total (A+B) 2013</b>	<b>116,520</b>		<b>1,704</b>							

Exposures/ Geographical area	Northwest Italy		Northeast Italy		Central Italy		South Italy and Islands	
	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses
<b>A. On-balance sheet exposures</b>								
A.1 Non-performing								
A.2 Doubtful								
A.3 Restructured exposures								
A.4 Past due exposures								
A.5 Other exposures	23,250		9,841		40,071		1,556	
<b>Total A</b>	<b>23,250</b>		<b>9,841</b>		<b>40,071</b>		<b>1,556</b>	
<b>B. Off-balance sheet exposures</b>								
B.1 Non-performing								
B.2 Doubtful								
B.3 Other impaired assets								
B.4 Other exposures					22			
<b>Total B</b>					<b>22</b>			
<b>Total (A+B) 2014</b>	<b>23,250</b>		<b>9,841</b>		<b>40,093</b>		<b>1,556</b>	
<b>Total (A+B) 2013</b>	<b>27,977</b>		<b>39,831</b>		<b>45,335</b>		<b>3,377</b>	

#### B.4 Large exposures

At December 31, 2014, there are 10 "large exposures", that is - as reported by Bank of Italy Circular 263 of December 27, 2006 "New prudential supervision regulations for banks", and subsequent updates, risk positions equal to or higher than 10% of Own Funds.

The nominal amount of these positions is €2,284,815 thousand for unweighted positions and €211,367 thousand for weighted positions.

However none of these positions exceed the individual limit of 25% of the Own Funds of the Banking Group.

## C. Securitization transactions

This section presents “qualitative” and “quantitative” information on the transactions for the securitization and the sales of assets put in place by the Bank.

### C.1 – Securitization transactions

#### Information on the transaction with “Banca IMI - FF Finance S.r.l.”

##### *Qualitative information*

##### *Strategies, processes and objectives*

At December 31, 2014 there is a securitization transaction that the company had put into place with Banca IMI on the receivables due from ASLs and AOs aimed at the diversification of sources of funding.

##### *Characteristics of the transaction*

The receivables were sold under ex Law 130/99 to the vehicle company, FF Finance S.r.l., which financed the purchase by issuing securities.

The transaction calls for an 18-month revolving period during which sales of receivables will be made against collections on the receivables, in order to maintain the collateralization ratio established in the contracts.

At the end of the revolving period, there will be a 6-month amortization period during which the securities will be repaid.

##### *Description of the risk profile*

Banca Farmafactoring, as the originator and subordinated loan provider, maintains a role in the securitization transaction, even though it sells the non-recourse receivables.

The transaction provides for a credit enhancement mechanism through an overcollateralization ratio (equal to 125.66% of the amount of the securities issued at December 31, 2014) and the subordinated loan carried by Banca Farmafactoring.

On the date of January 25, 2016 (the end of the amortization period), the vehicle, through the exercise of a put option, has the right to transfer back to the company any receivables sold and not yet collected.

At the end of the transaction, subsequent to the repayment of the securities and other senior expenses on the transaction, all the remaining amounts from the collection of the receivables sold, including interest on late payments, will be due to Banca Farmafactoring as the underwriter of the subordinated loan.

As a result of the above, all the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring itself and, therefore, the securitization risk is included in the credit risk.

### **Quantitative information**

#### **Type of financial instruments held**

In December 2013 at the same time the transaction was renewed, the structure of the securities was modified making the transaction more flexible: in fact, based on its financial needs, the Company has the right: *i)* to repay the securities at each payment date using the liquidity on the vehicle's accounts and *ii)* at any time request the vehicle to issue new securities on behalf of Duomo Funding Plc up to a maximum of €100 million.

Starting in January 2014, thanks to the flexibility mechanism mentioned above, the securities were partially repaid from €100 million (amount of the securities at December 31, 2013) to €16.65 million (amount of the securities at December 31, 2014).

On January 9, 2015 an Amendment Agreement was signed by the parties to bring forward the end of the revolving phase from July 27, 2015 to January 26, 2015.

At January 31, 2015, the notes amount to €0.3 million.

Repayment of the notes is expected to be completed in February 2015.

The Group does not hold securities in portfolio issued as part of the securitization transaction.

#### **Sub-servicer activity**

Banca Farmafactoring, having the mandate for collection, recovers and collects the receivables on behalf of the servicer Zenith Service S.p.A..

Following the sales of receivables made to FF Finance S.r.l. during the revolving phase of the transaction, the outstanding nominal amount of receivables at December 31, 2014 is about €21.3 million.

### **Information on the transaction with “Deutsche Bank – Farmafactoring SPV I S.r.l.”**

#### **Qualitative information**

##### **Strategies, processes and objectives**

In July 2014, the securitization transaction with the Deutsche Bank Group for the non-recourse sale of receivables due from the ASLs and AOs was renewed, with the aim of diversifying funding activities.

##### **Characteristics of the transaction**

The receivables were sold under ex Law 130/99 to a vehicle company, Farmafactoring SPV I S.r.l., which financed the purchase by issuing securities for €150 million, subscribed to by Deutsche Bank AG.

The renewed structure provides for a revolving period of 18 months during which revolving sales will be made against collections on receivables, in order to maintain the collateralization ratio established in the contract.

At the end of the revolving period there will be an amortization period correlating to the residual life of the outstanding receivables during which the securities will be repaid in full.

### *Description of the risk profile*

Banca Farmafactoring, as the originator and subordinated loan provider, maintains a role in the securitization transaction, even though it sells the non-recourse receivables.

The transaction provides for a credit enhancement mechanism through an overcollateralization ratio (equal to 133.33% of the amount of the securities issued) and the subordinated loan carried by Banca Farmafactoring.

The contract states that the company has the right to early terminate the revolving phase in the months of January, April, July and October 2015 against payment of consideration. In that case the company can decide whether to start the amortization phase during which the senior notes will be repaid or directly repay the senior notes by repurchasing the remaining portfolio.

At the end of the transaction, subsequent to the repayment of the securities and other senior expenses on the transaction, all the remaining amounts from the collection of the receivables sold, including interest on late payment, will be due to Banca Farmafactoring as the subscriber of the subordinated loan. In light of this condition, together with the right of the company to repurchase and/or substitute the receivables at any time, all the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring itself and, therefore, the securitization risk is included in the credit risk.

### *Quantitative information*

#### *Type of financial instruments held*

Banca Farmafactoring does not hold any financial instruments connected with the aforementioned transaction.

#### *Sub-servicer activity*

Banca Farmafactoring, having the mandate for collection, recovers and collects the receivables on behalf of the servicer Zenith Service S.p.A..

Following the sales of receivables made during the revolving phase of the transaction, the nominal outstanding amount of receivables at December 31, 2014 is about €227 million.

**Information on the transaction with “BayernLB - Farmafactoring SPV II S.r.l.”***Qualitative information**Strategies, processes and objectives*

On September 25, 2014 repayment of the Senior Notes under the Farmafactoring SPV II S.r.l. securitization program, originally for an amount of €70 million, was completed.

On October 24, 2014 agreements were signed with SPV (issuer), the BayernLB Group (liquidity provider of the noteholder), Corelux Purchaser No. 1 SA (noteholder) and other counterparties of the transaction for the closing of the securitization program, sanctioning:

- cancellation of all contracts relating to the transaction;
- repurchase, on the part of Banca Farmafactoring S.p.A., of the receivables portfolio still outstanding with SPV and the debit note issued and not yet collected.

**C.1. Banking Group - Exposure arising from securitization transactions by quality of underlying assets**

Quality of underlying assets/ Exposure	Balance sheet exposure						Guarantees provided						Credit lines						
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		
	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	
<b>A. With own underlying assets:</b>																			
a) Impaired																			
b) Other	242,685	85,386																	
<b>B. With third-party underlying assets:</b>																			
a) Impaired																			
b) Other																			

**C.2 Banking Group - Exposure arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure**

Type of securitized assets/Exposure	Balance sheet exposure						Guarantees provided						Credit lines						
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		
	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	
<b>A. Full derecognition</b>																			
<b>B. Partial derecognition</b>																			
<b>C. Not derecognized</b>	85,386	41																	
C.1 FF Finance Srl - Factoring	18,005	4																	
C.2 Farmafactoring SPVI - Factoring	67,381	37																	
C.3 Farmafactoring SPVII - Factoring																			

**C.6 Banking Group – Interests in securitization vehicle companies**

Securitization/ Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Receivables	Debt securities	Other	Receivables	Debt securities	Other
FF Finance S.r.l.	Turin Corso Re Umberto, 8	Line-by-line	92,595		131	16,650		
Farmafactoring SPV I S.r.l.	Milan Via Statuto, 10	Line-by-line	306,994		22	150,000		

***E - Sales transactions*****A. Financial assets sold and not totally derecognized*****Qualitative information***

The disclosure required by IFRS 7, paragraph 42D, letters a), b) and c) is provided below in respect of the nature of the assets transferred, the relationship between them and the associated liabilities and relative risks to which the Bank is exposed.

As previously described, at December 31, 2014, the following transactions are outstanding for the securitization of health care receivables sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale:

- in June 2011, the securitization transaction structured by Banca IMI and in which the receivables were sold to the vehicle company FF Finance S.r.l. and not derecognized from assets. With regard to this transaction, the amount of receivables sold but not derecognized amounts to €21,016 thousand;
- in October 2012, the securitization transaction structured by Deutsche Bank. Similarly to the transaction with the vehicle company FF Finance S.r.l., the receivables were sold to the vehicle company Farmafactoring SPV I S.r.l., and not derecognized from assets. With regard to this transaction, the amount of receivables sold but not derecognized amounts to €222,071 thousand.

There are also repurchase transactions, for about €595 million, with Cassa di Compensazione e Garanzia as the counterparty, put into place to refinance the securities portfolio of the Bank.



## Quantitative information

### E.1. Banking Group - Financial assets sold but not derecognized: carrying amount and total amount

Type/Portfolio	Financial assets held for trading			Financial assets measured at fair value through profit or loss			Available-for-sale financial assets			Held-to-maturity financial assets			Due from banks			Due from customers			Total		
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	12.31.14	12.31.13	
<b>A. Balance sheet assets</b>																					
1. Debt securities										595,047										837,732	308,557
2. Equity securities										595,047										595,047	
3. Units in investment funds																					
4. Loans																242,685				242,685	308,557
<b>B. Derivative instruments</b>																					
<b>Total 2014</b>										595,047										837,732	
<i>of which impaired</i>																					
<b>Total 2013</b>																				308,557	308,557
<i>of which impaired</i>																					

#### Key:

A = financial assets sold and fully recognized (carrying amount)

B = financial assets sold and partially recognized (carrying amount)

C = financial assets sold and partially recognized (total amount)

**E.2. Banking Group - Financial liabilities compared to financial assets sold but not derecognized: carrying amount**

<b>Liabilities/ Assets portfolio</b>	Financial assets held for trading	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Due from banks	Due from customers	Total
<b>1. Due to customers</b>				<b>595,034</b>		<b>157,299</b>	<b>752,333</b>
a) related to assets totally recognized				595,034		157,299	<b>752,333</b>
b) related to assets partially recognized							
<b>2. Due to banks</b>							
a) related to assets totally recognized							
b) related to assets partially recognized							
<b>Total 2014</b>				<b>595,034</b>		<b>157,299</b>	<b>752,333</b>
<b>Total 2013</b>						<b>151,056</b>	<b>151,056</b>

**1.2 Banking Group - Market risk**

**1.2.1 Interest rate risk and price risk – Regulatory trading portfolio**

*Qualitative information*

**A. General aspects**

The Banca Farmafactoring Banking Group does not conduct trading activities on financial instruments. At December 31, 2014, the only positions included in the regulatory trading portfolio are represented by derivative contracts on interest rates which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of "hedging instrument". The market risk recognized by the Group, therefore, refers to the market risk on positions relating to such derivative financial instruments.

The interest rate risk is represented by fluctuations in the level of market interest rates which may generate adverse effects on the income statement. The Bank's lending activities, represented by non-recourse receivables purchased, are at fixed rates whereas funding is generally at variable rates. The exposure is given by the amount of financing subject to this risk.

The amount of derivative instruments put into place to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be rendered at fixed rates, correlating the amount of the hedging to the portion of funding used for financing the lending made at fixed rates: in this sense, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the commissions and the flows of correlated exposure so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contracted rate on all the derivative transactions.

At December 31, 2014, the balance of derivative hedging transactions is equal to €30 million.

### Outstanding contracts

in euros

	Underlyings Interest rates and debt securities		Residual life in days	
	Notional amount	Fair value at 12.31.2014		
		Positive		Negative
<b>Outstanding contracts</b>				
<i>IRS plain vanilla, STEP-UP</i>	30,000,000		(45,760)	86
<i>Partial total</i>	30,000,000		(45,760)	86
<b>Total</b>	<b>30,000,000</b>		<b>(45,760)</b>	<b>86</b>

## B. Management processes and methods for measuring interest rate risk and price risk

Hedging strategies follow the trend of the Euribor rates, the expectations expressed by the market and are to be compared to the structure of the funding used for financing typical business operations.

At December 31, 2014, the fair value of hedging instruments is negative for an amount of €46 thousand.

The fair value represents the value of the financial instrument. This value depends on the structure of the financial instrument and the structure of the market curves (rate curve and volatility curve) over time.

Every financial instrument structure can be separated or associated with one or more of the following listed below:

- 1) fixed-rate component**, for which the cash flows generated by interest are calculated on the basis of the fixed rate, nominal amount and term. The fair value is equal to the sum of the discounted flows using the established discount factors;
- 2) variable-rate component**, for which the forward rates are calculated on the basis of the discount factors curve. The cash flows of interest are estimated using the forward rates. The fair value is equal to the sum of the discounted cash flows.

At December 31, 2014, due to the trend recorded by the interest rate curve and the reduction in the amount of existing derivatives, there is an improvement compared to the data at the end of the prior year (the fair value of the hedging instruments at December 31, 2013 was a negative €543 thousand, with a positive impact on the income statement for €497 thousand). There is also a full correlation with the rates implicit in the lending transactions carried out during the same period.

The capital requirement for the position risk, at December 31, 2014, equal to €95 thousand, is computed using the Maturity Ladder Approach, as reported in Bank of Italy Circular 285.

This system for measuring interest rate risk calls for the calculation of the net position relating to each issue, and the subsequent distribution, separately for each currency, over a time frame corresponding to the remaining life.

This is given by the sum of the remaining positions and netted positions, the latter weighted as established by the regulation.

Consistently with the above, the reduced exposure to risk does not require the use of control instruments other than those dedicated to ordinary business operations.

### Quantitative information

#### 1. Regulatory trading portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities on the balance sheet and financial derivatives

Currency: 242 euro

Type/ Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	5 to 10 years	over 10 years	Unspec. maturity
<b>1. Balance sheet assets</b>								
1.1 Debt securities								
- with prepayment option								
- other								
1.2 Other assets								
<b>2. Balance sheet liabilities</b>								
2.1 Repos								
2.2 Other liabilities								
<b>3. Financial derivatives</b>	<b>30,000</b>	<b>30,000</b>						
3.1 Physically settled								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Cash settled	30,000	30,000						
- Options								
+ long positions								
+ short positions								
- Other derivatives	30,000	30,000						
+ long positions	30,000							
+ short positions		30,000						

## 1.2.2 Interest rate risk and price risk – Banking portfolio

### *Qualitative information*

#### **A. General aspects, operational processes and methods for measuring interest rate risk**

For purposes of the assessment of interest rate risk, potentially associated with fluctuations in interest rates, the Bank is guided by the methodology contained in the prudential regulation (Attachment C – Bank of Italy Circular 285). This methodology is applied monthly, in order to record on a timely and continual basis any loss in the event of a market shock determined on the basis of annual changes in interest rates recorded during an observation period of six years, considering alternatively the first percentile (reduction) and the 99th percentile (increase) and ensuring that rates are not negative.

The sensitivity analysis of the interest rate requires the construction of a management framework so that the exposure can be highlighted. This is shown:

- in the liabilities, by the total amount of loans revalued in relation to the maturity of the single tranches of utilization, the exposure in derivatives and by funding from Conto Facto and from the issue of bonds;
- in the assets, by lending represented by exposure from the purchase of non-recourse receivables, whose collections are estimated using statistics of debtor payment times, and adjusted according to any settlement agreements with the individual regions and/or with significant debtors, or adjusted as a result of the sale of assets or by investments in the government securities portfolio.

The method used calls for:

- Classification of the assets and liabilities in different time periods: the allocation to different time periods is made, for fixed-rate assets and liabilities, on the basis of their residual life; for variable-rate assets and liabilities, on the basis of the interest rate renegotiation date.
- Weighting of the net exposures within each period: the asset positions and liability positions within each period are offset, obtaining a net position. Each net position, for each time period, is multiplied by the weighting factors, obtained as the product of the hypothetical variation in the rates and an approximation of the modified duration relating to the single periods.
- Sum of the weighted exposures of the different time periods: the weighted exposures of the different periods are all summed together, obtaining a total weighted exposure.

The Total Weighted Exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.

The situation resulting from the application of the framework for the management of interest rate risk, at December 31, 2014 (reported below), presents a potential loss in the present value of cash flows, in the event of a market shock, equal to €8.2 million.

The Bank regularly monitors interest rate risk, as well its management, through *ad hoc* reporting.

Interest rate risk is assumed in connection with the Banca Farmafactoring's funding activity and occurs as a result of complying with the policies and limits set by the board of directors and is regulated by specific powers delegated in this area, which set autonomous limits for those authorized to operate in the Finance Department.

The corporate functions responsible for ensuring the proper management of interest rate risk are the Finance Department, the Risk Management function and senior management, which annually propose the policies for lending and funding and interest rate risk management, and suggest, if necessary, any opportune actions to ensure that business is carried out consistently with the risk management policies approved by Banca Farmafactoring.

The interest rate risk position is reported quarterly to senior management and the board of directors of the Bank, in accordance with the procedures set out by the Risk Management function for senior management.

Furthermore, at the level of operations, the Finance Department monthly monitors interest rate risk, as well its management, through *ad hoc* reporting.

### C. Cash flow hedging operations

#### Outstanding contracts

*in euros*

	Underlyings Interest rates and debt securities			Residual life in days
	Notional amount	Fair value at 12.31.2014		
		<i>Positive</i>	<i>Negative</i>	
<b>Outstanding contracts</b>				
<i>IRS plain vanilla, STEP-UP</i>	55,000,000		(47,224)	162
<i>Partial total</i>	55,000,000		(47,224)	162
<b>Total</b>	<b>55,000,000</b>		<b>(47,224)</b>	<b>162</b>

Hedging transactions are aimed at neutralizing potential losses attributable to specific types of risks.

The Bank uses interest rate swaps (IRS) as instruments to hedge the interest rate applied to its funding.

Derivative hedging instruments, like all derivatives, are initially recognized at fair value and subsequently remeasured at fair value.

When a financial instrument is designated as a hedge, the Bank formally documents the relationship between the hedging instrument and the hedged item.

Changes in the fair value of derivatives are recognized on the basis of evidence provided by retrospective tests at the date of reference by a one-to-one correlation of derivatives to loans and in keeping with the provisions of IAS 39 (documentation of the hedge and effectiveness test of the derivative).

The provisions of IAS 39 require:

- documenting both the hedged item and the hedging instrument;
- carrying out retrospective quantitative tests to determine the effectiveness of the hedge.

Effectiveness tests are carried out by comparing the changes in the fair value of the hedging instrument with those of the hypothetical derivative. The hypothetical derivative is a derivative with financial technical characteristics equal to those of the hedged item and initial fair value equal to zero and is defined in such a way as to represent the perfect hedge.

At each reporting date retrospective tests are conducted that produce the ratio between the differences in fair value between the hedging instrument and the hypothetical derivative. If the ratio of the retrospective tests is between a range of 80% and 125% the hedge is effective; in the opposite case, the derivative is classified "for trading".

The changes in the fair value of the derivative are therefore recognized:

- in equity, if the test is effective (up to 100%). If the hedging relationship always remains effective, at the expiry of the transaction (maturity of the derivative and the loan) the equity reserve is used up without impacts on the income statement;
- in the income statement, if the test is effective but for other than 100% for the fair value difference between 100% and the percentage resulting from the effectiveness test;
- fully in the income statement, if the hedge is ineffective (below 80% and higher than 125%).

The contracts put in place in 2014 (during May 2014) and outstanding at December 31 are equal to €55 million. For hedge accounting purposes such contracts hedge the pool loan of an original amount of €255 million secured on December 12, 2013 and later reduced to €215 million in August 2014.

At December 31, 2014 hedging derivatives total a nominal amount of €55 million.



## Quantitative information

### 1. Banking portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities

Currency: EURO

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	5 to 10 years	over 10 years	Unspec. maturity
<b>1. Balance sheet assets</b>	<b>446,299</b>	<b>451,586</b>	<b>588,624</b>	<b>840,233</b>	<b>649,093</b>	<b>2,936</b>		
1.1 Debt securities		325,745	273,765	391,213	335,365			
- with prepayment option								
- other		325,745	273,765	391,213	335,365			
1.2 Loans to banks	96,807	919						
1.3 Loans to customers	349,491	124,923	314,860	449,020	313,727	2,936		
- current account								
- other loans	349,491	124,923	314,860	449,020	313,727	2,936		
- with prepayment option								
- other	349,491	124,923	314,860	449,020	313,727	2,936		
<b>2. Balance sheet liabilities</b>	<b>126,502</b>	<b>1,914,635</b>	<b>56,002</b>	<b>128,491</b>	<b>383,303</b>			
2.1 Due to customers	126,497	842,635	1,002	118,491	80,167			
- current account	10,567	15,655	1,002	118,491	80,167			
- other payables	115,929	826,980						
- with prepayment option								
- other	115,929	826,980						
2.2 Due to banks	5	905,500	55,000	10,000				
- current account	5							
- other payables		905,500	55,000	10,000				
2.3 Debt securities		166,500			303,136			
- with prepayment option		166,500			303,136			
- other								
2.4 Other liabilities								
- with prepayment option								
- other								
<b>3. Financial derivatives</b>	<b>55,000</b>		<b>55,000</b>					
3.1 Physically settled								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Cash settled	55,000		55,000					
- Options								
+ long positions								
+ short positions								
- Other derivatives	55,000		55,000					
+ long positions	55,000							
+ short positions								
<b>4. Other transactions off-balance sheet</b>								
+ long positions								
+ short positions								

### 1.2.3 Exchange rate risk

#### *Qualitative information*

#### **A. General aspects, operational processes and methods for measuring exchange rate risk**

Exchange rate risk is represented by the exposure of the Banking Group to fluctuations in exchange rates, considering both positions in foreign currency and those that provide for indexation clauses linked to the trend in the exchange rates of a specific currency.

The Group's asset portfolio is entirely expressed in euros; accordingly, the risk connected with the volatility of foreign currencies is to be considered non-existent.

#### *Quantitative information*

The Group's asset portfolio is entirely expressed in euros; accordingly, there are no methods for the measurement and management of such risk.

### 1.2.4 Derivative instruments

At December 31, 2014, the only derivative positions are represented by contracts on interest rates. These derivatives comprise €30 million included in the regulatory trading portfolio even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-re-course receivables, and €55 million in the hedging portfolio.

These instruments are illustrated in greater detail in this section, in paragraph 2.1 – Interest rate risk and price risk – Regulatory trading portfolio.

## A. Financial derivatives

### A.1 Regulatory trading portfolio: notional amounts at year-end and average amounts

Underlyings/ Derivative type	12.31.2014		12.31.2013	
	Over the counter	Clearing house	Over the counter	Clearing house
<b>1. Debt securities and interest rates</b>	<b>30,000</b>		<b>153,000</b>	
a) Options				
b) Swaps	30,000		153,000	
c) Forwards				
d) Futures				
e) Other				
<b>2. Equity securities and share indexes</b>				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
<b>3. Currency and gold</b>				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
<b>4. Commodities</b>				
<b>5. Other underlyings</b>				
<b>Total</b>	<b>30,000</b>		<b>153,000</b>	
<b>Average amounts</b>	<b>76,500</b>		<b>208,417</b>	

**A.2 Banking portfolio: notional amounts at year-end and average amounts****A.2.1 Hedging derivatives**

<b>Underlyings/ Derivative type</b>	12.31.2014		12.31.2013	
	Over the counter	Clearing house	Over the counter	Clearing house
<b>1. Debt securities and interest rates</b>	<b>55,000</b>			
a) Options				
b) Swaps	55,000			
c) Forwards				
d) Futures				
e) Other				
<b>2. Equity securities and share indexes</b>				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
<b>3. Currency and gold</b>				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
<b>4. Commodities</b>				
<b>5. Other underlyings</b>				
<b>Total</b>	<b>55,000</b>			
<b>Average amounts</b>	<b>36,667</b>			

**A.3 Financial derivatives: gross positive fair value – breakdown by product**

Underlyings/ Derivative types	Positive fair value			
	12.31.2014		12.31.2013	
	Over the counter	Clearing house	Over the counter	Clearing house
<b>A. Regulatory trading portfolio</b>			<b>5</b>	
a) Options				
b) Interest rate swaps			5	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
<b>B. Banking portfolio – hedging derivatives</b>				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
<b>C. Banking portfolio – other derivatives</b>				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
<b>Total</b>			<b>5</b>	

## A.4 Financial derivatives: gross negative fair value - breakdown by product

Underlyings/ Derivative types	Negative fair value			
	12.31.2014		12.31.2013	
	Over the counter	Clearing house	Over the counter	Clearing house
<b>A. Regulatory trading portfolio</b>	<b>46</b>		<b>548</b>	
a) Options				
b) Interest rate swaps	46		548	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
<b>B. Banking portfolio – hedging derivatives</b>	<b>47</b>			
a) Options				
b) Interest rate swaps	47			
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
<b>C. Banking portfolio – other derivatives</b>				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
<b>Total</b>	<b>93</b>		<b>548</b>	

**A.5 OTC financial derivatives - regulatory trading portfolio: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreements**

<b>Contracts not included in netting agreements</b>	<b>Govern. and central banks</b>	<b>Other public sector entities</b>	<b>Banks</b>	<b>Financial companies</b>	<b>Insurance companies</b>	<b>Non-financial companies</b>	<b>Other entities</b>
<b>1) Debt securities and interest rates</b>							
- notional amount			30,000				
- positive fair value							
- negative fair value			46				
- future exposure							
<b>2) Equity securities and share indexes</b>							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
<b>3) Currency and gold</b>							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
<b>4) Other instruments</b>							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							

**A.7 OTC financial derivatives - banking portfolio: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreements**

<b>Contracts not included in netting agreements</b>	Govern. and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
<b>1) Debt securities and interest rates</b>							
- notional amount			55,000				
- positive fair value							
- negative fair value			47				
- future exposure							
<b>2) Equity securities and share indexes</b>							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
<b>3) Currency and gold</b>							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
<b>4) Other instruments</b>							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							



**A.9 OTC financial derivatives - residual maturity: notional amounts**

<b>Underlyings/Residual maturity</b>	up to 1 year	over 1 year and up to 5 years	over 5 years	Total
<b>A. Regulatory trading portfolio</b>	<b>30,000</b>			<b>30,000</b>
A.1 Financial derivatives on debt securities and interest rates	30,000			<b>30,000</b>
A.2 Financial derivatives on equity securities and share indexes				
A.3 Financial derivatives on currency and gold				
A.4 Financial derivatives on other instruments				
<b>B. Banking portfolio</b>	<b>55,000</b>			<b>55,000</b>
B.1 Financial derivatives on debt securities and interest rates	55,000			<b>55,000</b>
B.2 Financial derivatives on equity securities and share indexes				
B.3 Financial derivatives on currency and gold				
B.4 Financial derivatives on other instruments				
<b>Total 2014</b>	<b>85,000</b>			<b>85,000</b>
<b>Total 2013</b>	<b>123,000</b>	<b>30,000</b>		<b>153,000</b>

### 1.3 Banking Group – Liquidity risk

#### Qualitative information

##### A. General aspects, operational processes and methods for measuring liquidity risk

Liquidity risk is represented by the possibility that the Bank will be unable to fulfil its payment obligations due to the inability to access funds on the financial market, or limits that are present which restrict the disposal of assets. This risk is also represented by the inability to raise adequate new resources, in terms of amount and cost according to operating necessities, which would force the Bank to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profits of its business.

Liquidity risk may be manifested through the following risk components:

- **Liquidity Mismatch Risk:** is the risk of mismatch between the amounts and/or the timing inflows and outflows.
- **Liquidity Contingency Risk:** is the risk that future unexpected events may require a materially larger amount of liquidity than the business currently requires in a scenario as a normal going concern. This risk may be generated by events such as failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or obtaining new loans in the event of a liquidity crisis.
- **Market Liquidity Risk:** is the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions and is forced to keep them in the absence of the market itself.
- **Operational Liquidity Risk:** is the risk of being unable to fulfill payment obligations due to errors, violations, interruptions or damages due to internal processes, persons or external events, while remaining solvent.
- **Funding Risk:** is the risk of incurring a loss due to the inability to draw from sources of financing at an economical cost to meet obligations and/or the possible increase in the costs of funding due to a change in rating (internal factor) and/or a wider gap in the credit spreads (external factor).

The Bank, in accordance with Bank of Italy's regulation for prudential supervision, has adopted a risk management regulation and a Treasury and Finance Regulation aimed at maintaining a high degree of diversification, in order to reduce liquidity risk, and identifying the governance and control principles as well as the structures responsible for the operational and structural management of liquidity risk.

This internal regulation sets out:

- the criteria adopted for the management of liquidity risk, defined in relation to the specific operations of the Bank and the potential sources of liquidity risk;
- the operating procedures through which the Bank monitors this risk, which include a diversification of short-term assets (operational liquidity management) and medium-term assets (structural liquidity management);
- the criteria for defining and carrying out stress tests, aimed at measuring in quantitative terms the capacity of the Group to meet potential adverse events that could affect the level of liquidity risk;
- the contingency funding plan in which the strategies and organizational and operating procedures are defined for the management of early warning, warning and crisis situations as well as the resulting responsibilities.

In order to ensure control over the processes for the management and control of liquidity risk, the Bank has adopted a governance model based on the following principles:

- separation between the processes for the management of liquidity and processes for the control of liquidity risk;
- development of the processes for the management and control of liquidity risk, consistently with the hierarchy structure of the bank and through a process of the delegation of powers;
- sharing of the decisions and clarity of responsibilities among management, control and operations bodies;
- conforming the management and monitoring processes of liquidity risk with prudential supervisory indications.

Stress tests of liquidity risk were conducted for the purpose of evaluating the potential impacts of stress scenarios on the financial conditions of the Group.

**Quantitative information****1. Time breakdown by contractual residual maturity of financial assets and liabilities**

Currency: EURO

Items/Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	unspec. maturity
<b>Balance sheet assets</b>	<b>443,106</b>	<b>8,931</b>	<b>23,765</b>	<b>20,324</b>	<b>216,745</b>	<b>408,264</b>	<b>1,030,573</b>	<b>823,321</b>	<b>2,936</b>	<b>919</b>
A.1 Government securities	276		22,042		119,679	91,690	574,300	498,795		
A.2 Other debt securities										
A.3 Units in investment funds										
A.4 Loans	442,830	8,931	1,723	20,324	97,066	316,574	456,273	324,526	2,936	919
- due from banks	96,807									919
- due from customers	346,022	8,931	1,723	20,324	97,066	316,574	456,273	324,526	2,936	
<b>Balance sheet liabilities</b>	<b>126,502</b>	<b>420,000</b>	<b>206,887</b>	<b>352,919</b>	<b>105,884</b>	<b>219,009</b>	<b>130,944</b>	<b>879,613</b>	<b>166,650</b>	
B.1 Deposits and current accounts	10,572		5,043	25,087	526	219,009	130,944	387,667		
- due from banks	5			15,000		218,000	10,000	307,500		
- due from customers	10,567		5,043	10,087	526	1,009	120,944	80,167		
B.2 Debt securities								300,000	166,650	
B.3 Other liabilities	115,930	420,000	201,844	327,833	105,358			191,946		
<b>Off-balance sheet transactions</b>	<b>46</b>					<b>47</b>				
C.1 Physically settled financial derivatives										
- long positions										
- short positions										
C.2 Cash settled financial derivatives	46						47			
- long positions										
- short positions	46						47			
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Physically settled credit derivatives										
- long positions										
- short positions										
C.8 Cash settled credit derivatives										
- long positions										
- short positions										

## 2. Disclosure about encumbered assets recognized in the financial statements

Type	Encumbered		Unencumbered		Total 2014	Total 2013
	VB	FV	VB	FV		
1. Cash and cash balances		X	3	X	3	1
2. Debt securities	1,033,980	1,035,044	292,109	292,470	1,326,088	81,992
3. Equity securities			23	23	23	23
4. Loans	255,762	X	1,396,922	X	1,652,683	1,276,667
5. Other financial assets		X		X		5
6. Non-financial assets		X	53,169	X	53,169	74,605
<b>Total 2014</b>	<b>1,289,741</b>	<b>1,035,044</b>	<b>1,742,226</b>	<b>292,494</b>	<b>3,031,967</b>	<b>X</b>
<b>Total 2013</b>	<b>324,460</b>	<b>15,903</b>	<b>1,107,820</b>	<b>66,112</b>	<b>X</b>	<b>1,432,280</b>

Encumbered debt securities for €1,033,980 thousand consist of government securities used as collateral on refinancing transactions with the ECB and repos with Cassa di Compensazione e Garanzia.

Encumbered loans for €242,685 thousand refer to receivables sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale, and for €13,077 thousand to margins deposited as collateral on repos with Cassa di Compensazione e Garanzia.

## 3. Disclosure about own encumbered assets not recognized in the financial statements

Type	Encumbered	Not encumbered	Total 2014	Total 2013
1. Financial Assets				100,000
- Securities				100,000
- Other				
2. Non-financial assets				
<b>Total 2014</b>				<b>X</b>
<b>Total 2013</b>		<b>100,000</b>	<b>X</b>	<b>100,000</b>

With regard to the year 2013, the amount referred to the nominal amount of the securities relating to the securitization transaction with "Banca IMI and WestLB - FF Finance S.r.l.", repurchased by Banca Farmafactoring during the second half of 2012 after WestLB Group's manifested its interest to sell the securities.

In January 2014, the program was reduced from the original €200 million to €100 million and the entire quota held by Banca Farmafactoring was reimbursed.

#### 1.4 Banking Group - Operational risks

##### *Qualitative information*

#### 1. General aspects, operational processes and methods for measuring operational risk

Operational risk is the risk of loss due to inadequacy or failures of procedures, caused by personnel and internal systems or as a result of external events. Falling in this category, among other, are fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk comprises legal risks but not strategic and reputational risk.

Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire category of risk.

In the Banking Group, the exposure to this category of risk is generated predominately by failures in the working process and in the organization and governance – human errors, malfunctioning of computer applications, inadequate organizational management and control – as well as any loss of human resources in key positions within corporate management. Exposures to operational risks deriving from external sources, instead, appear to be of negligible importance, partly in view of the mitigation tools adopted to meet these unfavorable events, such as the business continuity plan, data storage processes, back up instruments, insurance policies, etc..

The process adopted by the Group for the management and control of operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the proper standards and incentives with the aim of adopting professional and responsible behavior, at all levels of operations as well as the design, implementation and management of an integrated system for operational risk management adequate in relation to the nature, operations, size and profile of risk.

A “mixed” type assessment model for operational risks is employed by the Group. Such model is based on assessments that are both qualitative, linked to the mapping of the processes, the risk activities and relative controls put in place, and quantitative, using the methodologies set out by Bank of Italy.

Within the framework of the controls put in place over the exposure to operational risk, the following specific risks are also monitored by the Bank:

- Money laundering risk, regarding the risk that counterparties of the Bank, whether financial, commercial, suppliers, partners, collaborators and consultants may be implicated in transactions that might potentially favor the laundering of cash coming from illegal or criminal activities;
- Compliance risk, concerning the risk of legal and administrative sanctions, significant financial losses or reputational losses due to failure to comply not only with laws and regulations but also with internal standards and conduct applicable to corporate activities. For this type of risk, a review is carried out annually of the related assessment method, developed for all activities falling within the Bank’s legal scope of reference, according to a risk-based approach. In particular, for the relevant laws that do not call for the creation of specialized functions (e.g. privacy and workplace health and safety), the Compliance Function provides guidance *ex ante* to the Bank’s structures and assesses *ex post* the adequacy of the organizational measures and the control activities

adopted under the Compliance Risk Assessment method. As for the laws monitored by specialized functions, the Compliance function carries out an indirect control by cooperating with these specialized functions in defining the compliance risk assessment methods in addition to mapping the risks and the relative controls (Compliance Risk Matrix).

For the calculation of the capital requirement on the operational risk, the Banking Group uses the Basic Indicator Approach - BIA, by applying a regulatory coefficient to an indicator of the volume of the Bank's operations (Relevant Indicator).

The Group also assesses operational risks in connection with the introduction of new products, activities, relevant processes and systems and mitigates the consequence of any operational risk that may arise through the preventive involvement of the corporate control functions and the drawing up of specific policies and regulations on various subjects and topics.

To control the above risks, the Group adopts *ad hoc* organizational models for the management of the risks regarding money laundering, safety and health in the workplace and information security.

#### ***Quantitative information***

On the basis of the above methodology, the capital requirement for operational risk at December 31, 2014 is equal to €22,846 thousand.

### **SECTION 3 – RISKS OF THE OTHER COMPANIES**

The consolidated financial statements of the Banking Group reflect the aggregation of the elements of the balance sheets and income statements of the parent Banca Farmafactoring S.p.A., the wholly-owned subsidiary Farmafactoring España S.A. and the three special purpose entities FF Finance S.r.l, Farmafactoring SPV I S.r.l. and Farmafactoring SPV II S.r.l..

The three special purpose entities were set up for the securitization transactions structured by Banca IMI, Deutsche Bank and BayernLB and were included in the scope of consolidation because they meet the criteria set out in the IAS/IFRS standards which establish the obligation of consolidating a special purpose entity when, in the absence of an investment relationship, the company that prepares the financial statements, in substance, controls the special purpose entity.

These companies therefore do not show further and relevant elements of risk other than those mentioned in the preceding paragraphs.

## Part F - Consolidated Equity

### Section 1 - Consolidated equity

#### A. Qualitative information

The equity of the Banking Group is composed of the aggregate of share capital, reserves, valuation reserves and profit for the year.

For regulatory purposes, the relevant aggregate equity is calculated on the basis of the existing instructions of Bank of Italy and constitutes the basis of reference of the prudential supervision regulations.

#### B. Quantitative information

##### B.1 Consolidated equity: breakdown by type of company

Items/Amounts	Banking Group	Insurance companies	Other companies	Elim. & cons. adjustmen.	Total
Share capital	130,900				130,900
Share premium					
Reserves	51,482				51,482
Equity instruments (Treasury shares)					
Valuation reserves					
- Available-for-sale financial assets	238				238
- Property, plant and equipment					
- Intangible assets					
- Hedges of net investments in foreign subsidiaries					
- Cash flow hedges	(27)				(27)
- Foreign exchange differences					
- Non-current assets held for sale					
- Actuarial gains/losses relating to defined benefits plans	1				1
- Share of valuation reserves from investments accounted for using the equity method					
- Special revaluation laws	3,823				3,823
Profit for the year attributable to the parent and non-controlling interests	124,378				124,378
<b>Total</b>	<b>310,794</b>				<b>310,794</b>



### B.2 Valuation reserves for available-for-sale financial assets: breakdown

	Banking Group		Insurance companies		Other companies		Elim & cons. adjustmen.		12.31.2014	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	238								238	
2. Equity securities										
3. Units in investments funds										
4. Loans										
<b>Total 2014</b>	<b>238</b>								<b>238</b>	
<b>Total 2013</b>	<b>396</b>								<b>396</b>	

Available-for-sale financial assets are recognized at fair value. At the end of the year, the securities are measured at their amortized cost and the difference is recognized in equity under valuation reserves. This measurement led to the recognition of a positive change of €238 thousand in the valuation reserve at December 31, 2014.

### B.3 Valuation reserves for available-for-sale financial assets: annual changes

	Debt securities	Equity securities	Units in investment funds	Loans
<b>1. Beginning balance</b>	<b>396</b>			
<b>2. Positive changes</b>				
2.1 Increases in fair value	238			
2.2 Reclassification of negative reserves to income statement:				
- due to impairments				
- following disposal				
2.3 Other changes				
<b>3. Negative changes</b>				
3.1 Decreases in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income statement following disposal	396			
3.4 Other changes				
<b>4. Ending balance</b>	<b>238</b>			

#### ***B.4 Valuation reserves related to defined benefit plans: annual changes***

IAS 19 no longer allows the deferral of actuarial gains and losses under the corridor method, requiring their immediate recognition in comprehensive income for the year.

The results of the actuarial valuation reflect the impact of Law 296/2006 and the calculation, for purposes of IAS 19, refers solely to employee severance indemnity accrued and not transferred to supplementary pension funds or to the INPS treasury fund.

IAS 19 revised generated a positive change in the valuation reserves for 2014 of approximately €1 thousand.

### ***Section 2 – Own Funds and banking regulatory ratios***

#### **2.1 Application of the regulation**

Starting January 1, 2014 European Regulation 575/2013 relating to the new regulation harmonized for banks and investment companies, contained in the CRR community regulation (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013, was introduced on the basis of Bank of Italy Circular 285 “*Supervisory provisions for banks*” and 286 “*Instructions for the preparation of regulatory reporting for banks and investment companies*”, both of December 17, 2013.

These regulations include the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of Bank of Italy, and define the ways with which the discretionalities attributed by community discipline to the national authorities were exercised.

The most important change for the Banking Group consists in the reclassification of the revaluation reserves formed upon first-time adoption of IFRS, included in Common Equity Tier 1 capital. Regulatory Capital at December 31, 2013 was reclassified according to the new reporting.

#### **2.2 Banking Own Funds**

##### ***A. Qualitative information***

Own Funds represent the first line of defense against risks associated with overall financial activities and constitute the main parameter of reference for the assessment of capital adequacy.

The purpose of the prudential supervision regulation is to ensure that all banks have a minimum obligatory capitalization in relation to the risks assumed.

The Banking Group constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, also through its internal Risks Committee.

From the standpoint of Prudential Supervision, the amount of capital required is determined on the basis of the current reporting regulations.

Own Funds are composed of Common Equity Tier 1 Capital (CET1), Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2) net of items to be deducted and IAS/IFRS prudential filters.

The main elements that form Own Funds of the Banking Group are computed in Common Equity Tier 1 (CET1), and are the following:

- share capital paid-in;
- reserves (legal reserve, extraordinary reserve, retained earnings);
- profit for the year;
- valuation reserves: actuarial gains/losses relating to defined benefit plans;
- valuation reserves relating to hedging derivatives;
- valuation reserves: special revaluation laws.

Items to be deducted are intangible assets.

In reference to the contents of Bank of Italy Circular 285 of December 17, 2013 – Section II, Paragraph 2, last paragraph, wherein it is stated that banks have the right “not to include unrealized gains or losses in any element of Own Funds relating to exposures with the central administrations classified in the “Available-for-sale” category of IAS 39 approved by the UE” (option allowed by Bollettino di Vigilanza no. 12 of December 2013, in the paragraph relating to “Regulation on Own Funds), on January 24, 2014 the board of directors of Banca Farmafactoring decided to exercise such option.

Accordingly, beginning January 1, 2014 and until the end of the transitional period, the companies in the Banca Farmafactoring Banking Group will exclude unrealized gains or losses relating to the above-indicated exposures from Own Funds.

Own Funds of the Banking Group do not include capital items qualifying as Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2).

**B. Quantitative information**

<b>Item/Amount</b>	<b>Total 12.31.2014</b>	<b>Total 12.31.2013</b>
<b>A. Common Equity Tier 1 Capital (CET1) before prudential filters</b>	<b>262,106</b>	<b>186,401</b>
<i>of which grandfathered CET1 instruments</i>		
B. CET1 prudential filters (+/-)		
<b>C. CET1 gross of items to be deducted and effects of transitional adjustments (A +/- B)</b>	<b>262,106</b>	<b>186,401</b>
<b>D. Elements to be deducted from CET1</b>	<b>(2,053)</b>	<b>(1,123)</b>
<b>E. Transitional adjustments – Effect on CET1 (+/-), including minority interests subject to transitional adjustments</b>		
<b>F. Total Common Equity Tier 1 Capital (CET1) (C - D +/- E)</b>	<b>260,053</b>	<b>185,279</b>
<b>G. Additional Tier 1 Capital (AT1) gross of items to be deducted and effects of transitional adjustments</b>		
<i>of which grandfathered AT1 instruments</i>		
<b>H. Elements to be deducted from AT1</b>		
<b>I. Transitional adjustments – effect on AT1 (+/-), including qualifying instruments issued by subsidiaries and computable in AT1 due to transitional provisions</b>		
<b>L. Total Additional Tier 1 Capital ( AT1) (G - H +/- I)</b>		
<b>M. Tier 2 Capital (T2) gross of items to be deducted and effect of transitional adjustments</b>		
<i>of which grandfathered T2 instruments</i>		
<b>N. Elements to be deducted from T2</b>		
<b>O. Transitional adjustments – Effect on T2 (+/-), including qualifying instruments issued by subsidiaries and computable in T2 due to transitional provisions</b>		
<b>P. Total Tier 2 Capital (T2) (M - N +/- O)</b>		
<b>Q. Total Own Funds (F + L + P)</b>	<b>260,053</b>	<b>185,279</b>

The increase in Own Funds compared to the prior year is mainly due to the profit for the year.

## 2.3 Capital adequacy

### A. Qualitative information

Compliance with capital adequacy limits, for the Tier 1 Capital Ratio and the Total Capital Ratio is constantly monitored by the competent corporate bodies.

The Tier 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to the amount of Risk-Weighted Assets.

The Total Capital Ratio is the ratio of Total Own Funds to the amount of Risk-weighted Assets. In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – “*The Financial Statements of Banks: layout and preparation*”, and subsequent updates, the amount of risk-weighted assets is determined as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).

Banca Farmafactoring’s total exposure to risks at December 31, 2014, in relation to its business, is adequate according to the level of capitalization and the profile of risk identified.

The Tier 1 Capital Ratio and the Total Capital Ratio are 27.5%.

### Pillar I – Capital adequacy to meet the typical risks associated with financial activities

From the standpoint of operations, the absorption of risks is calculated using various methods:

- credit risk → standardized approach;
- counterparty risk → standardized approach;
- operational risk → basic indicator approach;
- market risk → standardized approach.

#### *Credit risk*

The application of the Standardized approach involves the division of the exposures into various portfolios based upon the nature of the counterparty, and the application of diversified weighted coefficients to each portfolio.

In particular, for the “Central administrations and central banks” portfolio, the weighting depends on the rating assigned by the External Credit Assessment Institutions (ECAIs), or Export Credit Agencies (ECAs), to the individual States; for the “supervised intermediaries” portfolio, the weighting depends on the rating of the State in which the supervised intermediary has its headquarters; for the “public sector entities” portfolio, the rules for weighting are the same as those for supervised intermediaries.

With regard to the reporting of Own Funds and capital requirements, the credit assessment agency (ECAI) for exposures to central administrations and central banks recognized by Banca Farmafactoring is “DBRS”, with the “Unsolicited” type of rating.

For the calculation of credit risk, the Bank applies the following weighting factors established by Bank of Italy’s regulation on Prudential Supervision:

- 0% for receivables from central administrations and central banks;
- 20% for receivables from territorial entities with offices in a member State of the European Union denominated and financed in the local currency;

- 50% for receivables from the Public Administration (which include those from AOs in the National Health System and ASLs) except for exposures with an original term equal to or less than three months for which a weighting is applied of 20%;
- 50% for receivables from supervised intermediaries except for exposures with an original term equal to or less than three months for which a weighting is applied of 20%;
- 100% for receivables from the Public Administration of countries in Credit Quality Class 3;
- 100% for receivables from private debtors;
- 100% for property, plant and equipment, investments and other assets;
- 150% for past due receivables.

The non-recourse receivables purchased by Farmafactoring España are weighted at 20% since the counterparties of reference of such exposures are represented by the “Comunidad” (the Regions) and not by the entities of the Public Administration.

Receivables from the Portuguese health service are weighted at 100% since the country rating is Credit Quality Class 3.

The Group constantly maintains, as a capital requirement against credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposure to credit risk.

Capital requirement = 8% RWA

The Risk-Weighted Amount is determined by the sum of the risk-weighted assets of the various classes.

#### *Counterparty risk*

Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions put in place with a specific counterparty have a positive value in the event of insolvency.

For Banca Farmafactoring, the counterparty risk is represented only by derivative contracts put in place to hedge the risk of fluctuations in the interest rate: the application of the “Standardized” approach shows an insignificant amount.

#### *Operational risk*

The Group uses the “Basic” indicator approach to measure operational risk: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator calculated on the items of the financial statements for the last three years, in accordance with European Regulation 575/2013.

#### *Market risk*

The Group measures market risk using the “Standardized” method. The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. At December 31, 2014, the only positions included in the regulatory trading portfolio are represented by derivative contracts on interest rates which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of “hedging instrument”.

### Pillar II – The ICAAP Summary

This Pillar requires banks to have control strategies and processes for determining the adequacy of current and future capital. It is the Regulatory Authority's responsibility to verify the reliability and accuracy of the relative results and, where necessary, to take the appropriate corrective actions.

The Banking Group presents the "ICAAP summary" by April 30, 2015 to Bank of Italy showing the updated risk management system for the determination of the adequacy of capital.

**B. Quantitative information**

Categories/Amounts	Unweighted assets		Weighted assets/requirements	
	12.31.2014	12.31.2013	12.31.2014	12.31.2013
<b>A. RISK ASSETS</b>				
<b>A.1 Credit and counterparty risk</b>				
1. Standardized approach	3,005,843	1,627,369	660,385	662,299
2. Internal rating based (IRB) approach				
2.1 Basic indicator approach				
2.2 Advanced measurement approach				
3. Securitizations				
<b>B. REGULATORY CAPITAL REQUIREMENTS</b>				
<b>B.1 Credit and counterparty risk</b>			<b>52,831</b>	<b>52,984</b>
<b>B.2 Credit valuation adjustment risk</b>				
<b>B.3 Settlement risk</b>				
<b>B.4. Market risk</b>				
1. Standardized approach			94	893
2. Internal models				
3. Concentration risk				
<b>B.5 Operational risk</b>				
1. Basic indicator approach			22,846	15,056
2. Standardized approach				
3. Advanced measurement approach				
<b>B.6 Other calculation elements</b>				
<b>B.7 Total capital requirements</b>			<b>75,771</b>	<b>68,933</b>
<b>C. RISK ASSETS AND CAPITAL RATIOS</b>				
C.1 Risk-weighted assets			947,139	861,662
<b>C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET 1 capital ratio) (%)</b>			<b>27.5%</b>	<b>21.5%</b>
<b>C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)</b>			<b>27.5%</b>	<b>21.5%</b>
<b>C.4 Total Own Funds/Risk-weighted assets (Total capital ratio) (%)</b>			<b>27.5%</b>	<b>21.5%</b>

The unsolicited rating assigned to the Republic of Italy by DBRS is "A low" and therefore the receivables due from the Public Administration fall into Credit Quality Class 2, with a weighting equal to 50%.



## Part G - Business Combinations

### *Section 1 – Business combinations completed during the year*

#### *1.1 Business combinations*

##### **Merger**

By notarial act recorded in the Register of Companies on October 13, 2014, the merger of FF Holding S.p.A. in Banca Farmafactoring S.p.A. was finalized following authorization received from Bank of Italy on July 18, 2014 and in execution of the shareholders' resolutions passed on September 9, 2014.

The transaction consisted of the merger of the parent FF Holding S.p.A. in its subsidiary Banca Farmafactoring S.p.A..

At the date of the merger, the merged company held as its only asset the investment in Banca Farmafactoring S.p.A. and did not qualify as a business combination under IFRS 3. Therefore this merger, which did not fall under the scope of IFRS 3 also because it was a business combination between parties under common control, from the perspective of Banca Farmafactoring S.p.A. was considered as a purchase of treasury shares and, accordingly, recorded in accordance with IAS 32.

In particular, the consolidated balance sheet and income statement of the Banking Group, for the year ended December 31, 2014, were not restated and express continuity compared to the consolidated financial statements for the year ended December 31, 2013.

The merger did not have any other impact on the equity of Banca Farmafactoring insofar as the value of the investment held by the merged company was cancelled as a result of the merger and basically corresponded to the equity of FF Holding S.p.A..

## Part H - Related Party Transactions

### 1. Information on compensation to key executives

Banca Farmafactoring S.p.A.

- Compensation to the directors: €1,475 thousand (of which €23 thousand relates to the directors of FF Holding S.p.A.)
- Compensation to the board of statutory auditors: €321 thousand (of which €127 thousand relates to the board of statutory auditors of FF Holding S.p.A.)

The following table shows the number of shares held by directors and executives of Banca Farmafactoring in the companies Banca Farmafactoring S.p.A. and Farma Holding S.à r.l. respectively; the shares were purchased at their fair value.

	Number of shares	Company
Directors and executives	55,311	Banca Farmafactoring S.p.A.
Directors	780	Farma Holding S.à r.l.

### 2. Information on related party transactions

By recording the act in the Register of Companies on October 13, 2014, the merger of FF Holding S.p.A. in Banca Farmafactoring S.p.A. was finalized following authorization by Bank of Italy received on July 18, 2014 and in execution of the shareholders' resolutions passed on September 9, 2014.

The transaction consisted of the merger of the parent by the subsidiary and did not have any impact on the equity of Banca Farmafactoring since the value of the investment held by the merged company and cancelled as a result of the merger, corresponds basically to the equity of FF Holding S.p.A..

Moreover, as set out in the related merger project, the merger is effective for accounting and tax purposes starting from the beginning of the year. Accordingly, the transactions entered into by the merged company for the period from January 1, 2014 to the date of the effective merger were recognized in Banca Farmafactoring's income statement.

To this end, it should be noted that in view of the limited operations of the merged company, the impact on the income statement of Banca Farmafactoring resulting from the subsequent recording of retroactive income and expenses amounts to about €463 thousand.

Following this transaction, the new majority shareholder of the Bank is Farma Holding S.à r.l. which holds 88.35% of share capital.

The Group has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, conducted on an arm's length basis.

There is a license agreement between Banca Farmafactoring S.p.A. and its wholly-owned subsidiary Farmafactoring España S.A. This agreement covers IT user rights to the software, organizational methods and communication lines of Banca Farmafactoring, as well as the assistance, maintenance and monitoring of the IT rights. Royalties are paid as consideration and, for the year 2014, amounted to about €533 thousand.

An intercompany loan agreement entered into on an arm's length basis was signed in May 2014. The loan is due on November 2015 and at December 31, 2014 was drawn for €243 million.

The ordinary shareholders' meeting of Farmafactoring España held on February 13, 2015 approved the financial statements for the year ended December 31, 2014. Thanks to the increase in volumes, the subsidiary reported a profit of €2,175 thousand.

Subsequent to its engagement for a voluntary audit, Deloitte S.L. expressed an unqualified opinion on the financial statements of Farmafactoring España S.A., approved on February 13, 2015.

## Part L - Segment Reporting

The Banca Farmafactoring Banking Group, at December 31, 2014, is composed of Banca Farmafactoring S.p.A., the parent, and the wholly-owned subsidiary Farmafactoring España S.A..

Banca Farmafactoring, like the subsidiary Farmafactoring España S.A., is engaged in the management and sale of receivables due from the National Health Service and the Public Administration. The Group thus acts as a financial and operational support for leading Italian and international companies in various segments of the product spectrum (mainly the pharmaceutical and biomedical sectors) through non-recourse factoring.

The Group's clientele, formed primarily by multinational companies in the pharmaceutical and biomedical segments, generates receivables due from the National Health Service and the Public Administration as a result of their business activities. Currently the Group is diversifying its operations also into other product segments (Telecommunications and Utilities).

At the year-end reporting date, the Group is organized essentially as a single-sector and single-product entity and, through its companies, operates with procedures and policies for the assumption of risks in a homogeneous manner.

Consequently, the definition of distinctly identifiable parts which provide products or services within the same economic environment subject to separable risks and benefits is not relevant for purposes of the management of the Group. Therefore, segment reporting is in fact coincident with the entire business of the Group.

As for information relating to the breakdown by geographical area and by product segment of the customer, reference should be made to the tables in Part E of these Notes.

### Other disclosure

#### *Fees paid to the audit firm and other firms in the network.*

As required by art. 149-duodecies of the CONSOB Issuers Regulation (resolution 11971 of May 14, 1999, and subsequent amendments and additions), the table gives the fees paid in 2014 for audit and other services rendered by the audit firm and firms in its network. These fees represent the costs incurred and recorded in the financial statements, net of out-of-pockets expenses and deductible VAT and the CONSOB contribution.

Type of Service	Service Provider	Fees (€/000)
Audit	PricewaterHouseCoopers S.p.A.	112,000
Certification services (*)	PricewaterHouseCoopers S.p.A.	68,000
Other services (**)	PricewaterHouseCoopers Advisory S.r.l.	79,000
Total		

(\*) Issuance of comfort letters relating to the issue of bonds and agreed procedures relating to compliance with financial covenants required by some loan contracts.

(\*\*) Fees for methodological support in certain company projects.



03

INDEPENDENT AUDITORS' REPORT





## AUDITORS' REPORT

To the Board of Directors of  
Banca Farmafactoring SpA

- 1 We have audited the consolidated financial statements, which comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the related notes of Banca Farmafactoring SpA and its subsidiaries (Banca Farmafactoring Group) as of 31 December 2014. The directors of the Company are responsible for the preparation of these consolidated financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards issued by the the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.  
  
For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes, reference is made to our report dated 19 May 2014.
- 3 In our opinion, the consolidated financial statements of Banca Farmafactoring Group as of 31 December 2014 comply with the International Financial Reporting Standards adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the consolidated financial position, results of operations and cash flows of Banca Farmafactoring Group for the year then ended.
- 4 The directors of Banca Farmafactoring SpA are responsible for the preparation of a report on operations in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard n° 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob.

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### **PricewaterhouseCoopers SpA**

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In our opinion, the report on operations is consistent with the consolidated financial statements of Banca Farmafactoring SpA as of 31 December 2014.

Milan, 27 February 2015

PricewaterhouseCoopers SpA

*Signed by*

Giovanni Ferraioli  
(Partner)

**(This report has been translated from the original, which was issued in accordance with Italian legislation. References in this report to the financial statements refer to the financial statements in original Italian and not to their translation)**

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