2015 ANNUAL REPORT

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Banca Farmafactoring S.p.A.
Registered office in Milan
Via Domenichino 5

Share capital €130,900,000 (fully paid-in)
Company Register No. 249145
Tax Code No. 07960110158

ANNUAL REPORT 2015 31th YEAR

BANCA FARMAFACTORING

Milan, March 3, 2016

Call to the ordinary Annual General Shareholders' Meeting of Banca Farmafactoring S.p.A.

The shareholders are hereby convened to the ordinary Annual General Shareholders' meeting to be held at the headquarters of the Company, in Milan, Via Domenichino 5, **in first call**, on **Thursday March 31, 2016 at 11:30**, and, should it prove necessary, in second call, on Saturday April 2, 2016 at same time and place, in order to pass resolutions on the following

Order of Business

1. Examination of the draft financial statements for the year ended December 31, 2015, the Board of Directors' Report on Operations and the Board of Statutory Auditors' Report. Relevant and consequent pertinent resolutions.

2. Integration of the members of the Board of Directors. Respective and pertinent resolutions.

3. Integration of the Board of Statutory Auditors following the resignation of an Acting Auditor. Relevant and consequent resolutions.

4. Annual Report on Compensation Policies.

5. Audit Report on Compensation Policies.

6. Report on Related Party Transactions in 2015.

7. Compensation and Incentive Policy in favor of the members of the Strategic Supervisory Management and Control bodies and Banca Farmafactoring employees. Revisions. Relevant and consequent resolutions.

8. Conflict of interest policy. Disclosure.

Banca Farmafactoring S.p.A.
Chairman of the Board of Directors
Salvatore Messina

Contents

Board of Directors

Chairman	Salvatore Messina
Chief Executive Officer	Massimiliano Belingheri
Vice Chairman	Luigi Sbrozzi
Directors	Mark Arnold* Gabriele Michaela Schindler Aumann* Ben Carlton Langworthy Federico Fornari Luswergh Elisabetta Oliveri Marco Rabuffi Giampaolo Zambeletti Rossi

** appointed by co-option*

Board of Statutory Auditors

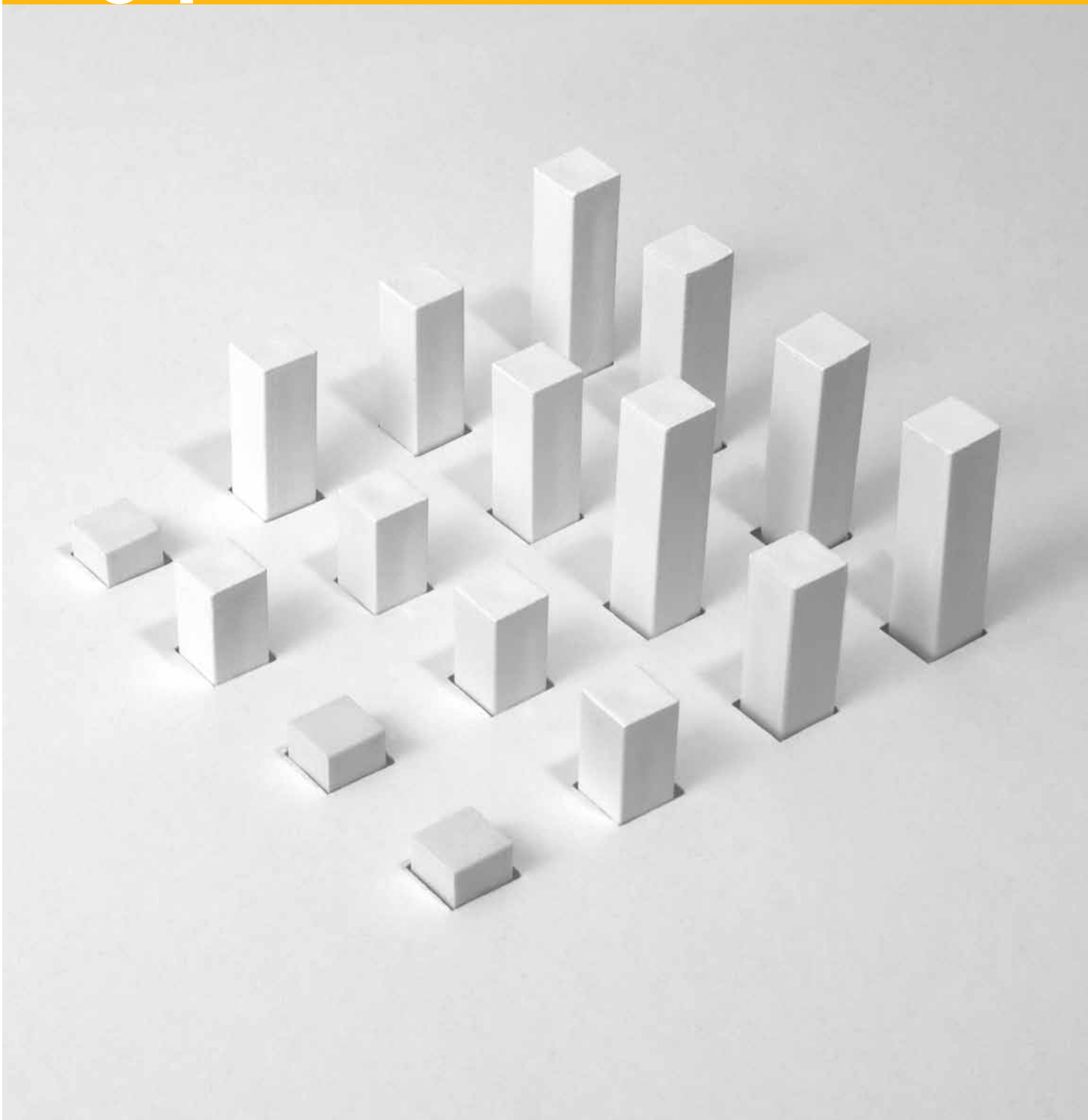
Chairman	Francesco Tabone
Acting Auditors	Marco Lori Lorenzo Pozza**
Alternate Auditors	Alessandro Cavallaro Patrizia Paleologo Oriundi

*** Resigning statutory auditor as from February 16, 2016*

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

During 2015 the global economy showed weak signs of growth, with positive trends in the more advanced countries and weakness in the emerging economies, which slows the expansion of trade and contributes to the compression of raw material prices.
Global GDP grew by 2.9% in 2015 and, in 2016, forecasts are for modest acceleration over 2015.

In the United States the growth process begun in 2014 continued, resulting in an increment in GDP of 2.4%, sustained by a rise in corporate investments. In Japan, too, unlike the last period of the previous year, the economy reported growth of 1% in the fourth quarter.

In the strongest emerging economies, the overall economic picture remains frail, with markedly varying trends in different countries.
The worsening of the recession in Brazil was contrasted by the positive evolution of the economic situation in India, and an attenuation of the fall of GDP in Russia.
The Chinese economy displayed a more incisive slowdown, driven mainly by a deceleration of investments that led to a weak trend in imports. Growth should settle at 6.8% in 2015 and is expected to fall to 6.3% next year compared to 7.3% reported in 2014.

OECD forecasts predict a gradual acceleration of global economic activity in the current year and next year, although its world growth forecasts for 2016 have been adjusted downward, especially for Japan, Russia and Brazil.

Inflation continues to be very low in all the more advanced countries.
In November the consumption deflator in the United States grew 0.5%. Prices in Japan reported an increase of 0.3% and in the United Kingdom 0.1%. In the emerging countries, inflation remained low in China (1.5% in November), on par with the aim of the Central Bank in India (5.4%) but higher in Russia and Brazil, which reported figures of 15% and 10.5% respectively.

In the United States the *Federal Reserve* began a normalization process of its monetary policy, raising the interest rate on *federal funds* by 25 basis points. This increase, the first since 2006, marks the end of the policy of zero interest rates adopted in December 2008. The increase had a modest impact on the financial and international currency markets. The *Federal Reserve* gave the main reason for raising the interest rate as being the significant rise in employment, confirming a gradual increase in the official interest rates, which could rise by one percentage point during 2016. In the other economies, monetary policies remain strongly expansive. In the United Kingdom, no rise in the official interest rates is expected until at least June of this year. In China, the Central Bank lowered both the obligatory reserve coefficient and interest rates on bank deposits and bank loans, and injected liquidity by launching short-term repo transactions. In other emerging countries, there was no change in interest rates.

Global trade began to grow again, albeit at a slower pace than that forecast by the OECD. In the first nine months of the year global trade rose 1.2%, compared to the same period in 2014.
In December and in January, the price of crude oil fell still further, sinking even below the threshold of U.S.$ 30 a barrel due to the strengthening of the dollar, the slump in the Chinese economy and the excess supply of oil on the market.

In the Eurozone growth continues but remains fragile, with an increase in GDP of 1.5%. The contraction of exports and the weakening of investments were partly compensated by a rise in internal demand. The confidence shared by businesses and households, sustained by positive employment figures, suggests that the recovery is still ongoing. As for the future outlook, the prospects of a gradual increase in growth are still threatened by risks of a downturn associated with uncertainty about demand in key markets and the heightening of geo-political tensions in the Middle East. These factors could undermine the climate of confidence and slow down the recovery of consumption and business on a global scale. Inflation remains very low, partly due to the effect of the fall in oil prices. In the months to come, the expectations of households and businesses should lead to a slight recovery in the growth of prices, which would, however, remain at modest levels. In addition to the fall in the prices of energy goods, the under-utilization of productive capacity also is contributing to keeping the general dynamics of prices at minimum levels.

The Governing Council of the ECB has strengthened its monetary stimulus program: the securities markets program is proving to be effective in terms of sustaining economic activity. At the meeting held on December 3, 2015 the ECB issued a new package of measures, reducing the interest on deposits in the Eurosystem banks by ten basis points, to -0.30%, extending the duration of the securities markets program by six months, and extending the range of securities allowed so that it includes bonds issued by local and regional Public Administrations in the Eurozone.
The monetary expansion policy is also having its effects on the credit market: bank loans to non-financial companies reported an increase of 1.8% over the year and the growth of bank loans to households remained stable at 1.9%. Average interest rates on new loans to non-financial companies and households are at a historical low: 2.1% and 2.3% respectively.

Furthermore, the strengthening of the ECB's securities markets program had a positive effect on the sovereign *spreads* of the Eurozone. Since the beginning of October, when expectations of an extension of the program were first consolidated, the differentials in the yield recorded contractions for Italy bringing the *spread* to about 100 basis points, also for Spain and Ireland, but remained more or less stable elsewhere. The ECB's expansionist monetary policy and the move to increase interest rates in the United States are reflected in the Euro exchange rate which from about mid-October onwards lost about 4% of its value against the U.S. dollar, and 3% against the yen.

The Italian Economy in 2015 and Forecasts for 2016

In Italy, the very gradual recovery continues. Based on figures currently available, in 2015, GDP reported growth of 0.7% compared to a reduction of 0.4% in 2014. The drive from exports has weakened. Having sustained activity over the last four years, exports have now come to a halt, as in the rest of the Eurozone, owing to the fall in demand from extra-European countries. Exports are gradually being replaced by domestic demand, especially with regard to consumption and the replenishing of inventories. The positive cyclical conditions in manufacturing are accompanied by signs of expansion in the sphere of services and the end of the recessive phase in the construction sector.

Corporate profitability improved, partly due to lower funding requirements as a result of an improvement in self-financing capacity, which more than compensated the increase in investments. In the last quarter of the year, the trend of corporate bank loans became noticeably positive again, for the first time since the end of 2011.
There were comforting signs also in the labor market. In fact, in the third quarter the employment figures continued to improve, especially in the case of young people and in the services sector, leading to a significant reduction in applications for unemployment benefits. In fact, unemployment fell to 11.4% compared to 12.8% in 2014.

Following the gradual improvement in the economic situation, for banks, the flow of new impaired bank loans as a percentage of outstanding loans decreased to 3.6%, from 3.8% in the prior quarter of the year. The flow of new non-performing loans as a percentage of outstanding loans fell more decisively from 2.9% to 2.4%. Profitability of the largest banking groups increased compared to the prior year, thanks to the growth of fee and commission income (up 7.5%), and the reduction in impairment losses on receivables (24.0% less). The strengthening of capital in the sector continues. At the end of September, the best quality capital, "*common equity tier 1*" and the total of own funds "*total capital*" of the banking system were equal on average to 12.3% and 15.1% of risk-weighted assets respectively.

On the basis of preliminary information, it is estimated that in 2015 the net debt of the Public Administrations was 3% lower than in 2014, with the percentage close to the Government estimate of 2.6% of GDP.
Official forecasts suggest that in 2016 net debt should contract even further, to 2.4% of GDP. The new Stability Law has cut revenues by €18 billion and expenditures by €0.4 billion. The main measures involve the removal of the safeguard clauses introduced by the Stability Laws for 2014 and, for 2015, the abolition of property tax on the main owned properties and the extension of incentives for employment.

Forecasts estimate a consolidation of the recovery of the Italian economy. To achieve this, it is assumed that less input from foreign trade will be replaced by a greater contribution from domestic demand and from trade within the Eurozone. For this to happen, it is essential that the effects of the securities markets program of the Eurosystem and the improvement of credit conditions should continue. Potential risk factors could stem from the international scenario: the slowdown in China and in the emerging economies could become more marked and last longer than predicted, raising levels of uncertainty and leading to greater caution over decisions about investments. Also, heightened geo-political tensions, due to the situation in the Middle East and recent terrorist attacks, could have repercussions on the confidence of households and the corporate sector.

The National Debt Structure, Expenditures for Goods and Services and Healthcare in Italy

According to Ministry of Economy and Finance estimates (Document of Economy and Finance (DEF) April 2015), public expenditures in 2015 will be about €827 billion, a slight increase over €826 billion in 2014.
The 2015 figure was negatively affected by the failure to apply the *spending review* to the government budget and the increase in expenditures for social benefits.

As for the national debt, on February 15, 2016 the statistical bulletin of the Bank of Italy was published on the estimates of the debt and funding requirements of the Public Administrations for 2015. At December 31, 2015 the national debt of Italy was €2,169.9 billion, recording an increase of €33.8 billion compared to €2,136 billion at year-end 2014. The increase was nevertheless lower than the funding requirements of the Public Administrations (€49.3 billion) thanks above all to the reduction of €10.7 billion in the liquidity of the Treasury and the premiums and discounts on issues, which reduced the debt by €5.1 billion.
It should be noted that the consolidated debt of the local governments decreased by €6.6 billion whereas that of the central government rose by €40.5 billion.

Expenditures for goods and services of the Public Administration in 2014 totaled €135.2 billion, of which almost €29.5 billion related to the healthcare sector (DEF April 2015). Estimates for 2015 by the Ministry of Economy and Finance do not envisage changes in the overall figure (€135.2 billion), even though the expenditure level is expected to be €30.3 billion higher.
The estimate was arrived at by taking into consideration both the trend in expenditures reported over recent years and the effects of measures adopted to reduce the expenditures of the Public Administration (e.g. reduction of the central purchasing offices, established by Legislative Decree 66/2014).

In recent years numerous actions have been taken to cut and reduce healthcare expenditures. The most important legislation in this respect is Legislative Decree 78/2010 which was converted with amendments, to Law 122/2010. This law introduced certain changes in terms of both the planning of the resources earmarked for the National Health Service (NHS) and on the question of repayment plans.

In implementing the Health Agreement 2014-2016, Law 190 of December 23, 2014 (so-called "Stability Law 2015") set the funding level for the National Health Service at €112.1 billion for 2015 and €115.4 billion in 2016.
However during 2015 measures to reduce expenditures were passed and this led to a new agreement between the State and the Regions, as a result of which the expense of the financial maneuver to be borne by the National Health Service was set at approximately €2.4 billion starting in 2015, with a consequent reduction, for the same amount, in the level of funding of the National Health Service, so that the budget was set at €109.7 billion for 2015 and €113.1 billion for 2016.

In 2015, therefore, the funding of the National Health Service was €109.7 billion against healthcare costs of €111.3 billion.

The healthcare deficit for 2015, taking into account only the funding by the State, was thus approximately €1.5 billion.

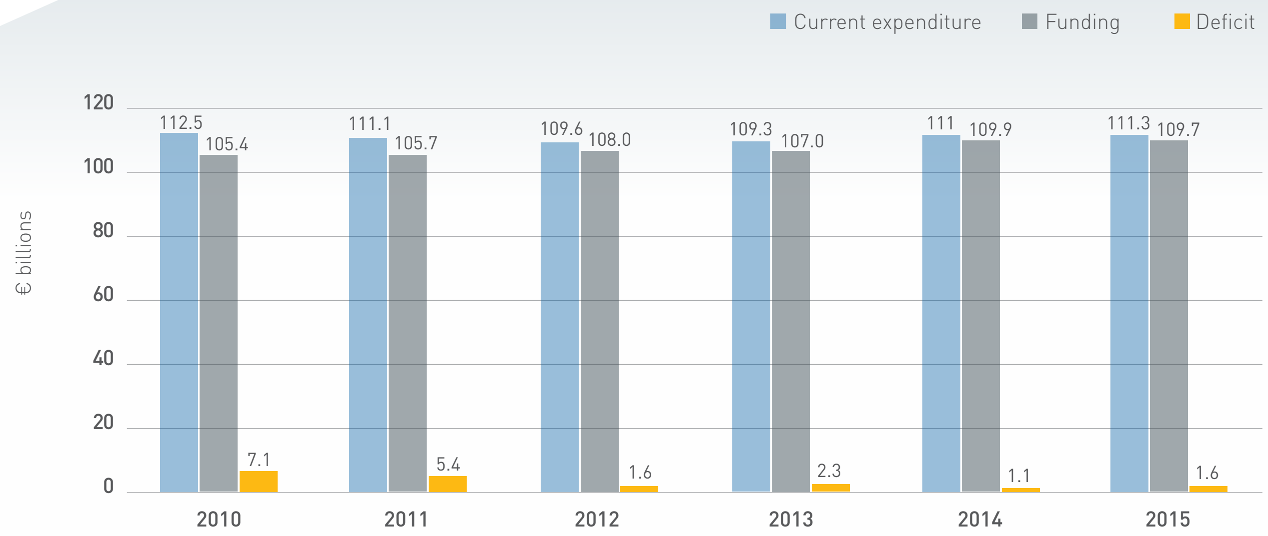
Finally, Law 208 of December 28, 2015 (so-called "Stability Law 2016") further reduced the funding level of the National Health Service for 2016 so that it is now set at €111 billion.
Starting January 1, 2015, as established by the Stability Law 2015, a *split payment* mechanism was introduced (Art. 17-ter of D.P.R 633/1972) on the basis of which the public entities, and no longer the suppliers, would pay VAT to the tax office 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*.
Since this area is regulated by community law, the European Commission examined the Italian law and, in June, authorized the application of the split payment mechanism. The authorization is only valid until December 31, 2017 when adequate controls will have been developed based on the data acquired through electronic invoicing. E-invoicing has been obligatory from the date of March 31, 2015 for transactions carried out with all the Public Administrations.

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 anticipated for 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.

As at July 20, 2015, €38.6 billion had been paid to creditors of the Public Administration against total funding to the debtors of €44.6 billion. Compared to the peak of amounts payable, estimated at €91 billion by the Bank of Italy at year-end 2012, an amount corresponding to payables considered past due and behind in payment has been absorbed by the debtor entities which, according to the Bank of Italy, is "only slightly more than half" of total payables. To correctly gauge the payment of this peak, it should be considered that the debtors had to use their own ordinary resources, besides the funding from the government.

Even after the passing the new regulations on "federal healthcare", the main tool to ensure economic equilibrium in the sector is the obligation that Regions with elevated deficits will have to adopt repayment plans.
Under the repayment plan system, Regions are obliged to activate fiscal levers to the maximum levels permitted by law in order to raise additional resources to cover their deficits arising from healthcare 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 for the continuation of the repayment plan.

National Health Fund (MEF data)



Developments in Banca Farmafactoring

The Bank has again focused on the development of its *business* model by continuing to direct activities towards the management and sale of receivables due from the National Health Service and the entities of the Public Administration, in the countries in which it is present.

The diversification of sources of financing has likewise progressed during the course of the year, by also extending to Spain, through the Banca Farmafactoring branch in Madrid, the model of *online* deposit accounts already operating in Italy. The model is aimed at *retail* and corporate customers and is guaranteed by the Fondo Interbancario di Tutela dei Depositi.

In this regard, the Bank of Italy informed Banca Farmafactoring on January 30, 2015 that it had proceeded to notify the Spanish Regulatory Authority of Banca Farmafactoring's intention to establish a branch, in accordance with provisions in force on the subject (Circular 285 of December 17, 2013, Title 1, Chapter 5, Section II). Banco de España then authorized the establishment of the branch on February 18, 2015.
The Spanish branch of Banca Farmafactoring commenced operations in July 2015.

As regards the calculation of amortized cost, including interest on late payments recognized on the accrual basis, the Bank integrated the time series of data utilized in the prior year, regarding the percentages and collection times of interest on late payments, with the collections recorded in 2015. As concerns the percentages of realization of interest on late payments, the analysis on 2015 showed that the recoverability percentages were higher than the average recorded up to last year, and which had led to the determination of the 40% used for amortized cost. However, prudently, the existing realization percentages have been confirmed. With reference to collection times, the times series analysis on 2015 indicated a longer time frame, but considering the average of the time series of data utilized (2010-2015), it is still lower than the 1800 days currently in use.

On March 31, 2015 Farma Holding S.à r.l., the majority shareholder, announced that it had a signed an agreement with BFF Luxembourg S.à r.l. – a company controlled by the Centerbridge Partners Europe L.P. Fund – for the purchase of the investment in Banca Farmafactoring.

On November 4, 2015, 1,602,341 shares – representing 94.26% of the share capital of the Bank – were transferred to BFF Luxembourg S.à r.l. by the majority shareholder Farma Holding S.à r.l. and some minority shareholders.

Following the change in the shareholder structure, the Bank interrupted the IPO launch and listing process for its shares on the regulated marked.
In its 2015 income statement, non-recurring expenses were recorded under administrative expenses for more than €5 million.
Of these expenses approximately €3.5 million refers to expenses in connection with the IPO process, the change in the shareholder of reference and other non-recurring transactions, whereas approximately €1.6 million refers to contributions paid into the Resolution Fund and the Fondo Interbancario Tutela dei Depositi.

From February 5, to April 22, 2015 the Bank of Italy conducted an inspection in Banca Farmafactoring.
On July 15, the inspectors of the Bank of Italy presented the "Findings and Observations" report to the board of directors. The inspection concluded with a positive opinion and there were no matters that arose such as to lead to the start of proceedings for sanctions.
The information provided to the Regulatory Authority describing the actions and the related timing for implementation that the Bank intends to take in respect of the recommendations received as a result of the inspection, was approved by the board of directors on September 10, 2015.

The Bank's total exposure to its business risks at December 31, 2015 is considered more than adequate in relation to the level of capitalization and the identified risk profile.
The capital ratios for the *CET1 Capital Ratio*, the *Tier I Capital Ratio* and the *Total Capital Ratio* are 20.8%.

With regard to the liquidity ratios, LCR *(Liquidity Coverage Ratio*), NSFR (*Net Stable Funding Ratio*) and the *Leverage Ratio*, the Parent performs continuous monitoring, in addition to regularly transmitting the reporting requirements required by regulations.
As concerns this activity, the Bank fully complies with the requirements, including the application of the limits defined by the European Capital Requirements Regulation (CRR) for future years.
The LCR ratio, pertaining to short term liquidity (within 30 days), at December 31, 2015 is approximately 390%, a percentage abundantly exceeding the 60% minimum established by the regulation.
The NSFR ratio, referring to liquidity beyond 30 days, at the same date, is above 111% compared to the indicative percentage of 100% established by the Basel Committee for 2019.
The *leverage ratio* at December 31, 2015 is 6.1% against the 3% currently fixed by the Basel Committee.

A description is provided below on the trend of the most important indicators of the Bank's business and the key balance sheet and income statement figures.

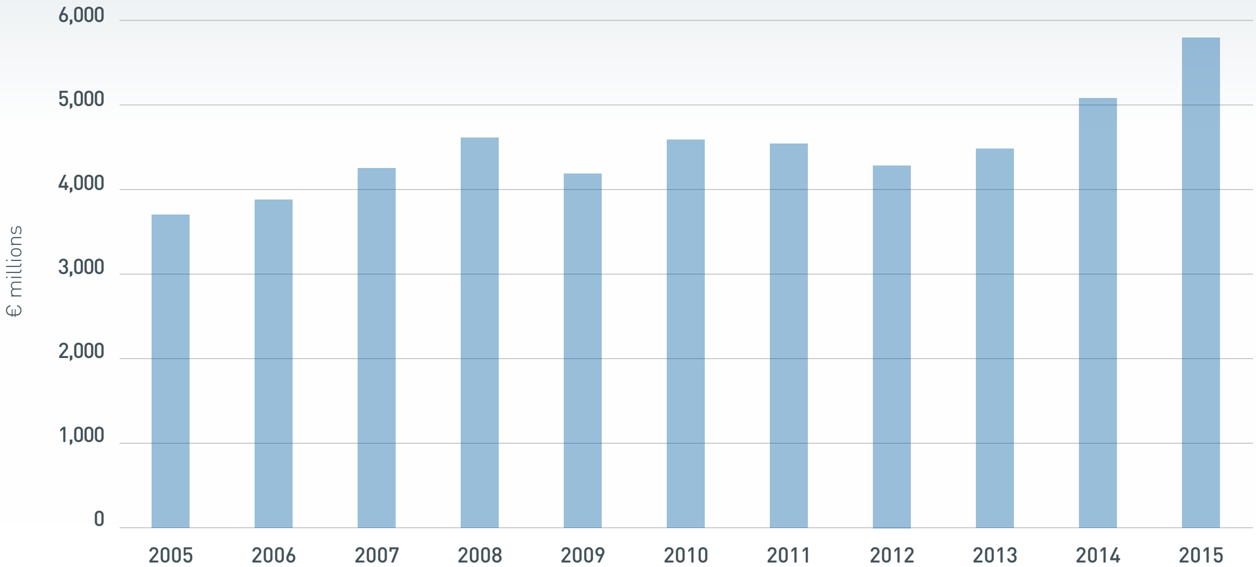
Performance by Banca Farmafactoring in 2015

Overall volumes reported by the Bank totaled €5,819 million in 2015. This is an increase of 14% over €5,109 million recorded in 2014, while total collections came to €4,981 million compared to €5,069 million in the prior year.
To counteract the challenging macroeconomic scenario and a more complicated competitive environment, the Bank 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 €2,536 million, with an increase compared to €2,185 million in 2014 partly due to the acquisition of new clientele.
In particular, €937 million was purchased by the Bank from other counterparties of the Public Administration compared to €319 million in 2014. As for the Portuguese market, the Bank purchased €55 million of non-recourse receivables against €24 million last year.

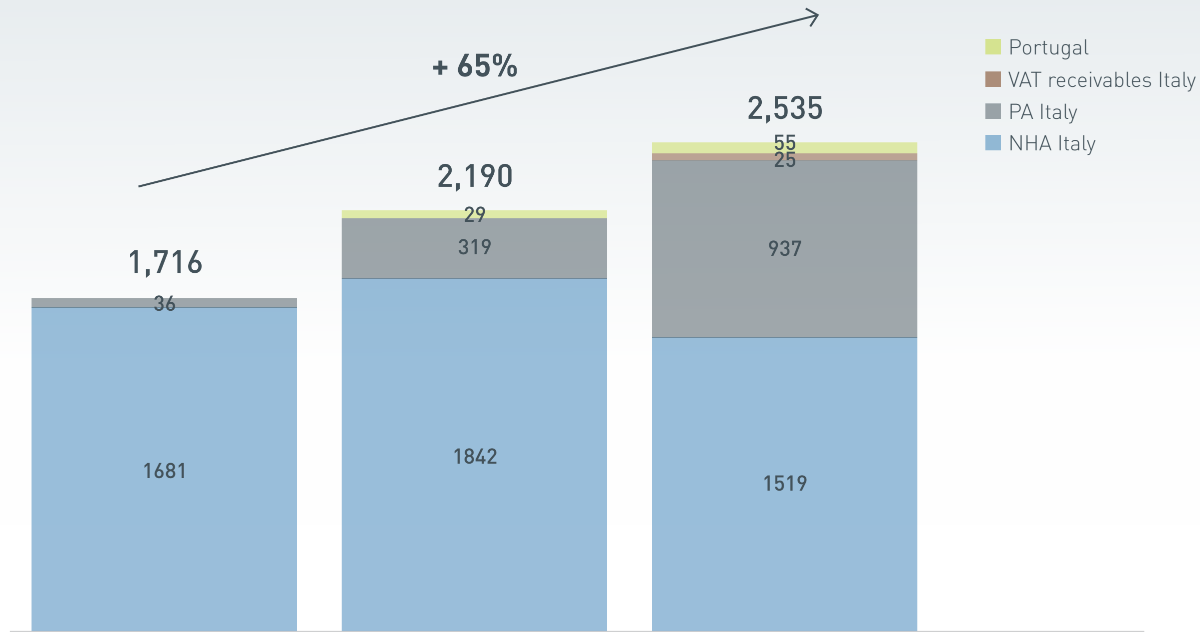
These results seem even more significant when considering the introduction of the *split payment* mechanism under the "Stability Law 2015". Under this mechanism, for invoices issued from January 1, 2015, it is the public entities, and no longer the suppliers, that pay VAT to the tax office on the sales of goods and on services rendered to those entities.
For Banca Farmafactoring, the effect of the introduction of *split payments* led to a reduction in *like-for-like* volumes of approximately 15% (average VAT rate of the transferred portfolios) on Italian trade receivables.

The following graphs represent the total volumes of the Bank.

Total Volumes



The next graph shows the distribution of volumes in each year by type of counterparty and market compared to those of the previous two years. The comparison highlights a strong contribution to growth by the Italian Public Administration (PA). The total purchases, compared to 2014, show a 16% increase, with those from the Public Administration increasing by 195%.
Considering an average VAT rate of 15%, the receivables purchased in Italy grew, net of the *split payment*, by approximately 66% compared to 2013, and approximately 32% compared to 2014.



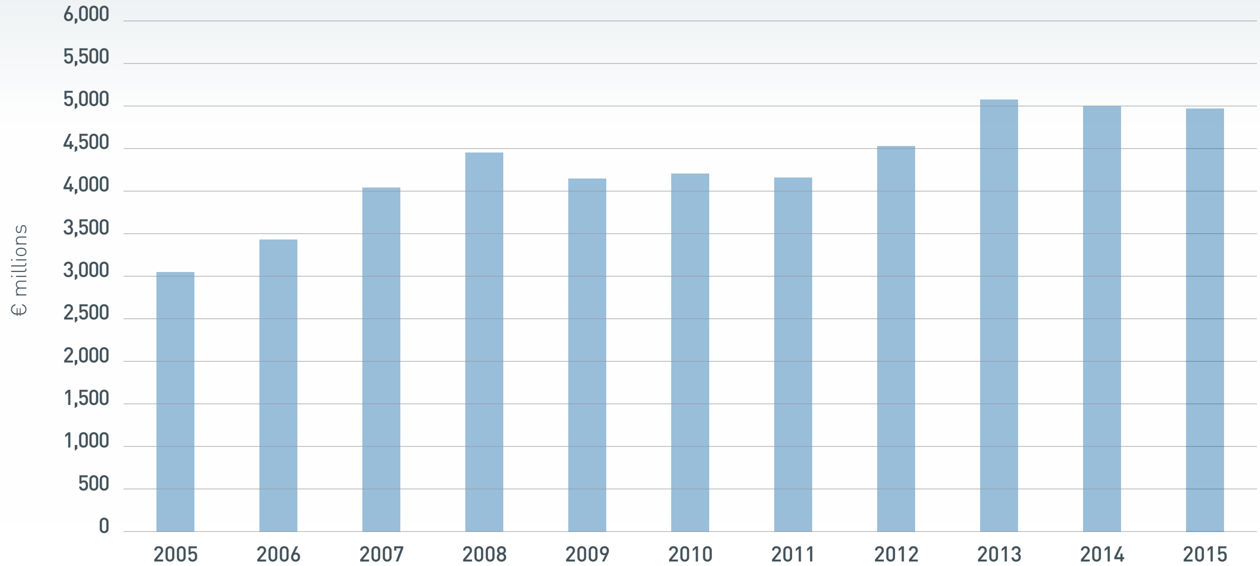
	12/31/2013	12/31/2014	12/31/2015	Var 15/13	Var 15/14
Total turnover managed	4,535 € mln	5,450 € mln	6,325 € mln	+ 39%	+ 16%

Source: Banca Farmafactoring S.p.A. internal data

Normalizing 2014 for the *split payment* effect, the overall turnover rose by approximately €600 million, with an increase of approximately 33%.

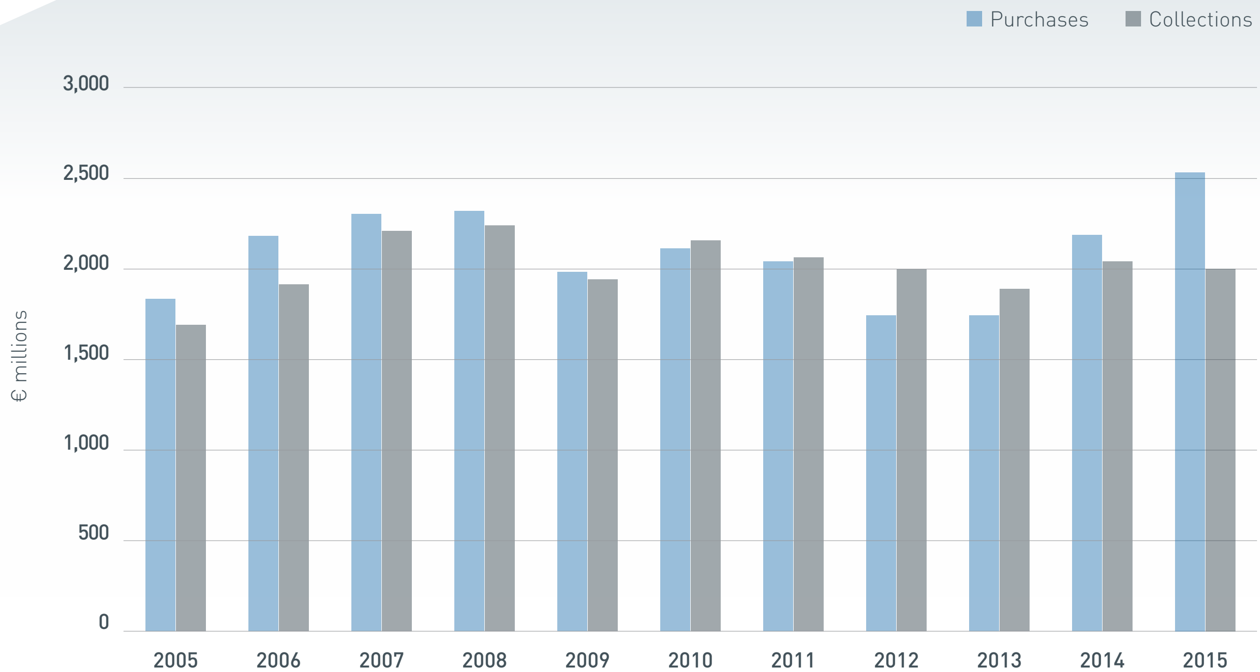
The following graph represents total collections of the Bank.

Total Collections



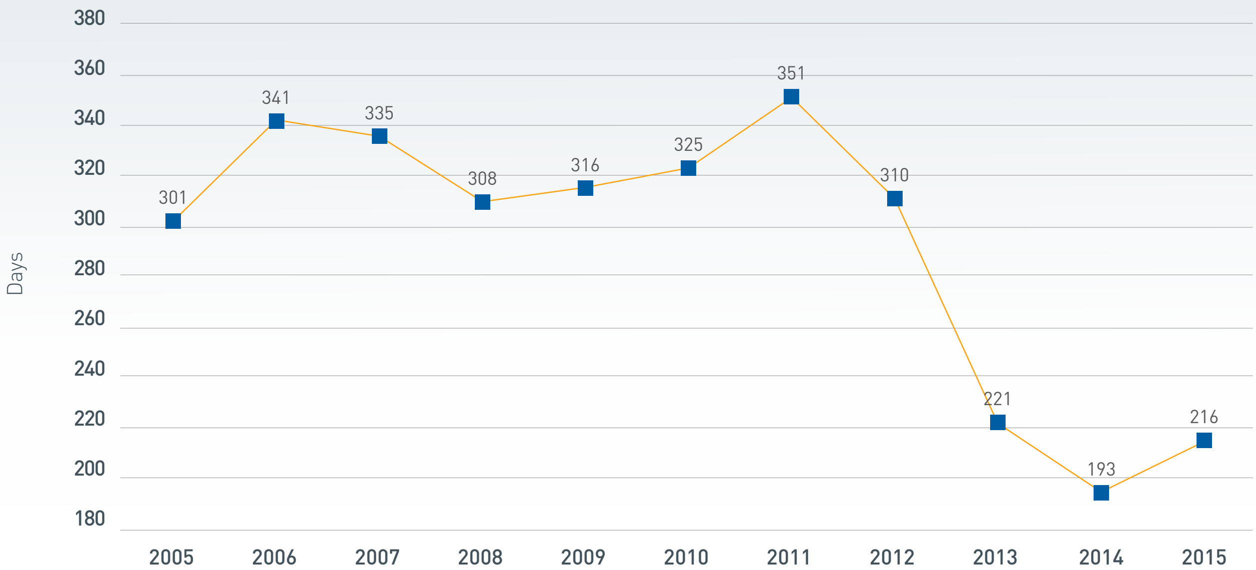
Purchases and collections received on non-recourse receivables purchased amounted to €2,536 million and €2,006 million, respectively.

Non-recourse Receivables - Purchases and Collections



In 2015 the average days' sales outstanding for receivables managed by Banca Farmafactoring on its behalf and on behalf of third parties, for Italy, was 216 days compared to 193 days in 2014.
The higher number of days compared to the prior year is largely attributable to the notable increase in volumes on purchases from other counterparties of the Public Administration, which have longer payment times than the entities of the National Health Service.
The payment times of the National Health Service are also influenced by the gradual lessening of the positive effects of the government measures that made resources available to the entities of the Public Administration so they could cope with the problem of accumulated liabilities in arrears (Legislative Decree 35/2013, Legislative Decree 102/2013, Stability Law 2014 and Legislative Decree 66/2014).

Average Day's Sales Outstanding (DSO)



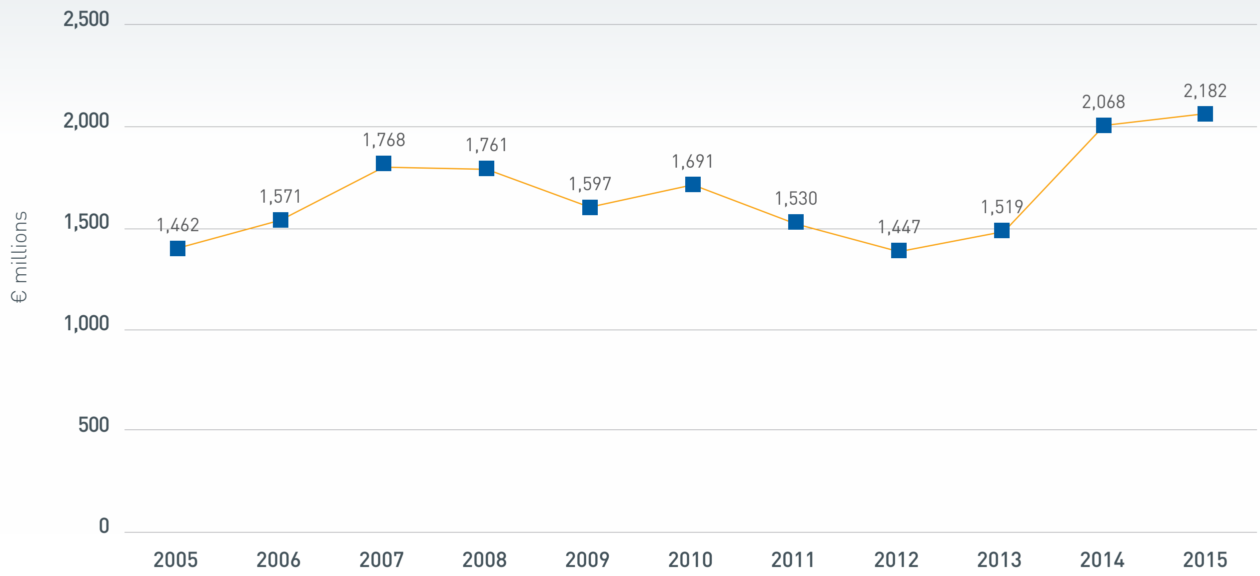
Source: Banca Farmafactoring S.p.A. internal data

The expansionist measures adopted by the ECB have provided support to economic activities and credit recovery. The ECB is determined to use every instrument available including the possibility of varying the size, composition and duration of the programs for public and private securities purchases if this becomes necessary to counter the risks of a decline and to ensure that inflation returns to values consistent with the definition of price stability.

In this context, the Bank has managed to operate adequately, thanks also to its solid capitalization and the stability of its financial resources.
At December 31, 2015 financial resources arising from *wholesale funding* of a banking nature and from the bond issue floated in June 2014 amounted to €1,764 million.

Considering the approximately €418 million on the deposit-taking account, described below, the total amount of *funding* for the purchase of non-recourse receivables is equal to €2,182 million at December 31, 2015.

Trend in *Wholesale Funding* and Direct Deposit-Taking



The following activities were concluded during the year with the aim of diversifying and optimizing the deposit-taking structure and rendering it more flexible in relation to the dynamics of the development of the Bank's business:

- Structuring of *stand-by* financing for a total amount, at the end of the year, of €590 million;

- Reduction in the *funding term loan* structures from full utilization of €672.5 million to €260 million, represented by the structured securitization transaction with the Deutsche Bank Group, the revolving period of which is expected to end on June 30, 2016, and the Club Deal loan arranged by the Intesa Sanpaolo Group, which is scheduled to end in April 2016. The term loan structures were also reduced by the full early repayment, originally scheduled for June 2015 by contract, of the pool loan organized by the Intesa Sanpaolo Group, for the remaining amount of €215 million, and the pool loan arranged by the Unicredit Group of €197.5 million;

- Increment, up to €330 million, in the existing collaboration with Unicredit Factoring and Ifitalia for the sale of receivables due by Banca Farmafactoring from debtors of the Public Administration.

The reimbursement of the Senior Notes under the FF Finance S.r.l. securitization program, originally for an amount of €100 million, was completed on February 25, 2015.

During March 2015 agreements and other required documents were signed with SPV (*Issuer*), the Intesa Sanpaolo Group (*Account Bank* and *Cash Manager*), Duomo Funding Plc (*Noteholder*) and other counterparties to the transaction for the closing of the securitization program.

At the end of the year the face value of securities in portfolio amounted to €1,218.5 million, of which:
- €419 million is classified in the *Available-for-Sale* (AFS) portfolio
- €799.5 million is classified in the *Held-to-Maturity* (HTM) portfolio.

The securities held in the available-for-sale portfolio are at variable rates (CCT) with maturity dates within five 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 regard to 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* at least until December 31, 2017), and with *repos* mainly with Cassa Compensazione e Garanzia through the MTS platform.

At December 31, 2015 the government securities portfolio was refinanced for a nominal value of €206 million through ECB auctions and €892 million with *repos*. The nominal value of securities available at December 31, 2015 is €120 million (of which €20 million in intraday credit with the Central Bank).

Deposit Account

In September 2014 Banca Farmafactoring launched an *online* deposit account in Italy called Conto Facto aimed at *retail* and corporate clientele and 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 deposit their funds for a fixed term choosing 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**) and Conto Facto's website (**www.contofacto.it**), as well as at the Bank's offices opened to the public.

Since May 25, 2015 the offer for individuals has been extended by the addition of a new time deposit account denominated Conto Facto Plus, which provides account holders with the possibility of withdrawing up to 30% of the principal without a penalty. Conto Facto Plus comes with maturity dates of between 9 and 36 months.
Both forms of time deposit accounts (Facto, on which funds cannot be withdrawn in advance, and Facto Plus) require a minimum deposit of €10,000 for each account to be opened, and the maximum balance per account is €3 million for individuals (Facto and Facto Plus) and microcompanies (only Facto) and €10 million for companies (only Facto).

In August 2015 the Spanish branch of Banca Farmafactoring launched a similar *online* deposit account, Cuenta Facto, also aimed at retail and company clientele and guaranteed by the Fondo Interbancario di Tutela dei Depositi, of which the Bank is a member. In this case too, the product aims to diversify the Group's funding and reduce its borrowing cost, as well as take deposits *in loco* to fund the purchase of non-recourse receivables factoring activities by the Group in Spain.
Cuenta Facto can be held by individuals and companies resident in Spain. As with Conto Facto, account holders deposit their funds for a fixed term choosing the exact date between 3 and 60 months on which to withdraw their cash. The interest offered on the deposits varies according to the maturity date selected, as described in the documents "*Condiciones particulares*" and "*Anexo precios y tarifas*" in the section "*Contratos y tarifas*" on Cuenta Facto's website (**www.cuentafacto.es**).
The time deposit account, on which funds cannot be withdrawn in advance, require a minimum deposit of €10,000 for each account to be opened, and the maximum balance per account is €3 million for individuals and €10 million for companies.

At December 31, 2015 deposits in Conto Facto, Conto Facto Plus and Cuenta Facto totaled €418 million compared to €226 million at December 31, 2014.

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:** oversees the realization of the process for determining capital adequacy, monitors the controls over the management of risks in order to define the methodologies used to measure risk, assists the company bodies in designing the Risk Appetite Framework, 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:** supervises, according to a risk-based approach, the management of the risk of non-compliance with regulations, with regard to all the activities falling within the regulatory perimeter for the Bank, continuously verifying whether internal processes and procedures are adequate in preventing such risk;
• **Anti-Money Laundering (AML) Function:** oversees conformity in matters of anti-money laundering and anti-terrorism, and is responsible for the controls required by the anti-money laundering

law 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

Internal audit activities are conducted by the Group's internal audit function, in a staff position to the board of directors. The regulation approved by the board of directors specifies that the internal audit function, within the third-level controls, should evaluate the overall functioning of the system of internal control and bring to the attention of the corporate boards possible improvements, with particular reference to the Risk Appetite Framework, to the process for the management of risks as well as the tools for their measurement and control.
The person in charge of the internal audit function has the necessary autonomy and is independent of the operating structure, in compliance with Bank of Italy's regulation on the subject of internal controls, and with regard to internal regulations, is the function with the organizational means to monitor company processes. The internal audit function performed, for the year 2015, 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 audit work was conducted on the subsidiary Farmafactoring España and on the Spanish branch in Madrid.
The process for audit planning and management is certified under the quality standard UNI ISO 9001:2008.
In December 2015 the person in charge of the internal audit function was appointed by the board of directors to head up the internal systems for *whistleblowing* in conformity with the banking regulatory requirements of reference.

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 2015 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.

Systems Development

In 2015 investments were made in the Information & Communication Technologies sector. These investments were directed to applications software and basic software and hardware to ensure the availability, continuity, performance and security of the systems (see Bank of Italy Circulars 263 and 285, and subsequent updates, regarding systems and operating continuity, Legislative Decree 196 of June 30, 2003, as amended, and the international standards ISO/IEC 27001:2013 - 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 in the production and disaster recovery sites;

• completion of the private data transmission network between the main branches of the Bank using MPLS technology;

• activation of the deposit account front end system for the Spanish branch of the Bank and the RSI software systems; creation of new websites for Farmafactoring España and for Fondazione Farmafactoring;

• completion of new software modules relating to:
- system for the management of receivables portfolios to be purchased;
- system for the management of receivables volumes;
- system for the management of the classification of debtors;
- putting into operation the new software module for the management of fixed assets in the Bank's accounting system;

• creation of new software functionality within the factoring system for the management of:
- Italian Public Administration debtors and Portuguese National Health Service debtors, *split payments* and electronic invoicing;
- improvements to the *pricing* system;

• completion of the plan updating systems and operating continuity in accordance with the new Bank of Italy regulations (Circulars 263 and 285, and successive updates);

• 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).

New Deposit Guarantee Scheme

The 2014/49/EU directive (*Deposit Guarantee Schemes Directive* - DGSD) introduced, in 2015, on the subject of deposit guarantee schemes, a new mixed financing mechanism, based on ordinary contributions (ex-ante) and special contributions (ex-post), anchored to the institutions' *covered deposits* and the degree of risk of the individual member bank.

In particular, Art. 10 provides that available financial resources should be set aside up to the *target level* of 0.8% of total covered deposits by July 3, 2024, through ordinary annual contributions of the member banks.

The board of the Fondo Interbancario Tutela Depositi (FITD) has established that the overall contribution level for 2015 should be €205,972,064. This corresponds to 50% of the annual contribution (calculated based on the accounting data at June 2015), to be divided among the member banks in relation only to the amount of covered deposits. The contribution quotas have been calculated in reference to the contribution base at September 30, 2015.

The amount of the contribution by Banca Farmafactoring for 2015 is approximately €134 thousand and was paid in December 2015. This amount was recognized in item 150 b) "other administrative expenses", as indicated in the Bank of Italy note of January 19, 2016 "Contributions to Resolution Funds: treatment in financial statements and in regulatory reporting".

As concerns special contributions, Art. 23 of the new FITD statutes provides that "whenever the available financial resources are insufficient to reimburse depositors, the member banks shall pay special contributions not to exceed 0.5% of covered deposits per calendar year. In exceptional cases, and with the consent of the Bank of Italy, the FITD may ask for higher contributions".

On November 26, 2015 the shareholders' meeting of FITD members also approved a voluntary scheme to be set up to implement support measures in favor of member banks in conditions of or at the risk of becoming insolvent. Banca Farmafactoring has indicated that it will participate in the scheme which will presumably involve a payment commitment of approximately €22 thousand.

National Resolution Fund

With Legislative Decrees 180 and 181 of November 16, 2015, the 2014/59/EU directive (*Banking Resolution and Recovery Directive* - BRRD) was introduced into national law. The directive establishes a rescue and resolution framework for banks and investment firms and provides for the establishment of national resolution funds.
The Bank of Italy thus established the National Resolution Fund by Order of November 18, 2015, with authority to use the resolution tools.
Every Member State will have to set up, by December 31, 2024, its own financing arrangement so that the amount funded is equal to at least 1% of the amount of the covered deposits of all the authorized entities in its respective territory.
In order to reach this objective, therefore, the contributions from the authorized entities in the respective territories will have to be received, at least on an annual basis.
The annual ordinary contribution required to be paid by Banca Farmafactoring in 2015 is equal to approximately €367 thousand.

In addition, the Bank of Italy took into consideration the need to have recourse to the Fund immediately as part of the framework of the resolution program for the crises at Banca delle Marche, Banca Popolare dell'Etruria e del Lazio, Cassa di Risparmio della Provincia di Chieti and Cassa di Risparmio di Ferrara. The Bank of Italy therefore initiated the procedure for receiving the special contribution in the maximum amount established, equal to three years of the ordinary contribution, in accordance with the provisions of Art. 83 of the above-mentioned Legislative Decree 180. For Banca Farmafactoring, this amount is approximately €1,100 thousand.

The total impact of the ordinary and special contributions was recorded in item 150 b) "other administrative expenses", as indicated in the Bank of Italy note of January 19, 2016 "Contributions to Resolution Funds: treatment in financial statements and in regulatory reporting".

Finally, Regulation 806/2014, which came into effect on January 1, 2016, has established the *European Single Resolution Fund* – SRF, which will be managed by the new European resolution Authority, the *Single Resolution Board*. The national resolution funds received in 2015 will, in 2016, therefore become part of the new European Resolution Fund.

Change in Staff Headcount

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

Category	2012		2013		2014		2015	
	ITALY	SPAIN	ITALY	SPAIN	ITALY	SPAIN	ITALY	SPAIN
Executives	7		7		9		11	
Supervisors	31		34		45		51	4
Remaining staff	67		67		85		104	2
Total by country	**105**	**0**	**108**	**0**	**139**	**0**	**166**	**6**
Total	**105**		**108**		**139**		**172**	

During the year 33 new resources were added. Such increase in headcount was aimed at reinforcing the management structure and adding qualified professional staff, in Italy and Spain, where a branch of the Bank was established during the year.

(in € thousands)

Item	2010	2011	2012	2013	2014	2015
Personnel costs	9,030	8,398	11,330	12,724	14,096	17,513

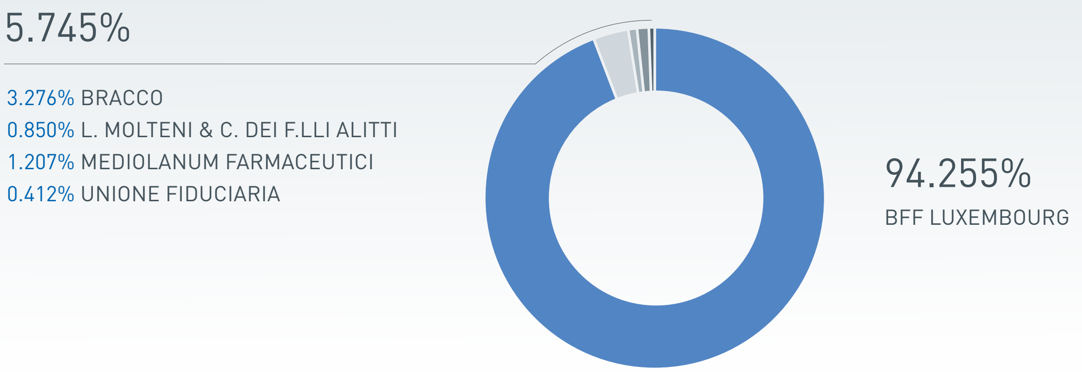
Personnel costs increased mainly as a result of the new staff additions during the current year.

Transactions with the Parent and Other Related Parties

On November 4, 2015, as previously described, 1,602,341 shares, representing 94.26% of the share capital of the Bank, were transferred to BFF Luxembourg S.à r.l. by the majority shareholder Farma Holding S.à r.l. and some minority shareholders.

Following this transaction, the new majority shareholder of the Bank is BFF Luxembourg, which holds 94.255% of share capital.
The shareholders of Banca Farmafactoring are the following:

Shareholders



The Group has factoring and mandate arrangements for the management and collection of receivables with its shareholder companies, which are 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 2015, amounted to about €441 thousand.

The total exposure of Banca Farmafactoring with the subsidiary amounts to €173.2 million at December 31, 2015.

The ordinary shareholders' meeting of Farmafactoring España held on February 24, 2016 approved the financial statements for the year ended December 31, 2015. Thanks to the increment in volumes, the subsidiary reported a profit of €9,131 thousand. This is a 420% increase over €2,175 thousand reported in the prior year.
Following its engagement for a voluntary audit, Deloitte S.L. expressed an unqualified opinion on the financial statements of Farmafactoring España S.A..
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, the Banca Farmafactoring Banking Group will pursue the activities undertaken in past years, developing commercial policies geared to the strengthening of its relationships with existing clientele, expanding operations not only for the management of receivables deriving from the supply of drugs or diagnostic products but also from the supply of other merchandise sectors, as well as those arising from services provided to the Public Administration in general, in European Union countries.
In keeping with these guidelines, in January 2016, the Bank, through the vehicle company Mediona, specifically acquired for this purpose, announced a tender offer to purchase 100% of the shares of Magellan S.A., a Polish joint-stock company listed on the Warsaw Stock Exchange.
Magellan is a leader in the financial services market targeting the healthcare sector in Poland and operates also in the Czech Republic, Slovakia and Spain.

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 standards.

Structure of the IAS/IFRS financial statements

The financial statements conform to the provisions of Bank of Italy Circular 262 of December 22, 2005, and subsequent updates, "*The Financial Statements of Banks: layout and preparation*".

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

BANCA FARMAFACTORING

Reclassified Balance Sheet

(in € thousands)

Item	12.31.2015	12.31.2014	Change
Assets			
Cash and cash balances	158	3	156
Available-for-sale financial assets	429,438	370,180	59,258
Held-to-maturity financial assets	822,859	955,932	(133,073)
Due from banks	55,393	74,718	(19,326)
Due from customers	1,943,091	1,547,108	395,983
Investments	6,297	6,294	3
Property, plant and equipment	12,576	12,595	(20)
Intangible assets	2,747	2,052	694
Tax assets	27,985	30,854	(2,869)
Other assets	4,290	3,389	902
Total Assets	**3,304,832**	**3,003,124**	**301,708**
Liabilities and Equity			
Due to banks	688,076	968,261	(280,185)
Due to customers	1,877,502	1,315,709	561,793
Securities issued	302,962	301,912	1,050
Financial liabilities held for trading	0	46	(46)
Hedging derivatives	0	47	(47)
Tax liabilities	67,242	72,628	(5,386)
Other liabilities	41,558	29,432	12,126
Employee severance indemnities	883	717	166
Provisions for risks and charges	5,036	4,158	878
Equity	261,913	188,012	73,901
Profit for the year	59,659	122,202	(62,543)
Total Liabilities and Equity	**3,304,832**	**3,003,124**	**301,708**

Reclassified Income Statement

(in € thousands)

Item	2015	2014 PROFORMA	Change	2014
Interest income	146,920	146,376	544	246,958
Interest expenses	(29,098)	(44,943)	15,845	(44,943)
Net interest margin	**117,822**	**101,433**	**16,389**	**202,015**
Net fee and commission income	**7,965**	**8,763**	**(798)**	**8,763**
Gains/losses on trading	46	497	(451)	497
Fair value adjustments in hedge accounting	(23)	(7)	(15)	(7)
Gains/losses on disposal/repurchase of available-for-sale financial assets	872	953	(82)	953
Operating income	**126,682**	**111,639**	**15,043**	**212,221**
Impairment losses/reversals on financial assets	(1,126)	131	(1,256)	43
Administrative expenses	(43,444)	(33,876)	(9,567)	(33,876)
Net adjustments to/writebacks on property, plant and equipment and intangible assets	(2,115)	(1,720)	(394)	(1,720)
Net provisions for risks and charges	(878)	(1,262)	383	(1,262)
Other operating income (expenses)	4,594	7,573	(2,979)	7,573
Profit before income taxes from continuing operations	**83,714**	**82,484**	**1,230**	**182,979**
Income taxes	(24,054)	(27,191)	3,137	(60,777)
Profit for the year	**59,659**	**55,293**	**4,366**	**122,202**

For purposes of comparison with the prior year the figures for the year 2014 are also presented "pro-forma", that is, they are presented as if the change in method used to estimate the interest on late payments, which took place in 2014, had been applied since 2011. The "pro-forma" data is unaudited.

If consideration is not given to the non-recurring costs relating to the shares listing process of €1.6 million, contributions paid to the Resolution Fund and the Fondo Interbancario di Tutela dei Depositi of €1.6 million, expenses relating to other transactions for a total of €1.8 million, in addition to higher expenses for indirect taxes (non-deductible VAT) of €0.6 million, the profit for the year of the Bank would be €63.5 million.

Comments on the Reclassified Balance Sheet

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

Available-for-sale financial assets

(in € thousands)

Item	12.31.2015	12.31.2014	Change
Government securities - AFS	429,415	370,157	59,258
Investments	23	23	0
Total	**429,438**	**370,180**	**59,258**

The balance mainly represents the value of government securities purchased by Banca Farmafactoring to protect against liquidity risk and to optimize the cost of money, for a total nominal amount of €419 million.

The securities held are at variable rates (CCT) with a residual maturity date within two years.

These securities are classified in the available-for-sale 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, 2015 the fair value reserves on available-for-sale securities amount to approximately €481 thousand net of the tax effect.

During the year available-for-sale securities were sold for a nominal amount of €552 million, realizing a gain of €872 thousand, gross of the tax effect, recognized in the income statement in item 100 b) "Gains/losses on disposal/repurchase of available-for-sale financial assets".

Held-to-maturity financial assets

(in € thousands)

Item	12.31.2015	12.31.2014	Change
Government securities	822,859	955,932	(133,073)
Total	**822,859**	**955,932**	**(133,073)**

The balance consists entirely of purchases of government securities, classified in the *held-to-maturity* (HTM) portfolio, to protect against liquidity risk and to optimize the cost of money, for a total nominal amount of €799.5 million.

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 are classified in the held-to-maturity portfolio and therefore measured at amortized cost. The interest earned is recorded in the income statement according to the effective interest method.

The held-to-maturity portfolio refers to financial assets which the Bank intends to hold until the maturity date set in the contract, and which permits the collection of fixed and determinable amounts.

The *fair value* of these securities at December 31, 2015 is €826,912 thousand, with a positive fair value change before income taxes compared to the carrying amount at the same date of €4,053 thousand, which is not recognized in the financial statements.

Due from banks and customers

(in € thousands)

Item	12.31.2015	12.31.2014	Change
Due from banks	55,393	74,718	(19,326)
Due from customers	1,943,091	1,547,108	395,983
Of which due from financial institutions	*0*	*67*	*(67)*
Total	**1,998,483**	**1,621,826**	**376,657**

"Due from banks" consist mainly of the Group companies' current account balances at the end of the year.

This line item includes approximately €5,788 thousand relating to the deposit of the mandatory reserve with Istituto Centrale delle Banche Popolari (ICBPI) since Banca Farmafactoring indirectly participates in the system.

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

(in € thousands)

Item	12.31.2015	12.31.2014	Change
Assignors – loan account	2,230	855	1,375
Non-recourse receivables purchased	1,711,200	1,278,737	432,463
Receivables purchased below face amount	22,696	6,172	16,524
Receivables due from subsidiaries/parent	173,250	243,000	(69,750)
Other receivables due from customers	33,715	18,276	15,438
Receivables due from financial institutions	0	67	(67)
Total	**1,943,091**	**1,547,107**	**395,983**

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 for the amount considered recoverable based on the time series analysis on the percentages and recoverability times.

As regards the calculation of amortized cost, including interest on late payments recognized on the accrual basis, the Bank integrated the time series of data utilized in the prior year, regarding the percentages and collection times of interest on late payments, with the collections recorded in 2015. The outcome of this integration has confirmed, on the basis of the times series analysis, the recoverability rate of 40% for interest on late payments and 1800 days for collection times.
These recovery percentages have not been applied to the interest on late payments of non-performing positions, which have been entirely written off.

The cumulative amount of interest on late payments to which the Group is entitled but has not yet collected, on non-recourse receivables purchased (the Provision account for interest on late payments), is €423 million, of which only €140 million was recognized in income in the current and prior years.
There is still an open securitization transaction on healthcare securities structured with Deutsche Bank.
The receivables in this transaction were sold to the special purpose vehicle Farmafactoring SPV I S.r.l. and the assets were not derecognized. The value of the receivables sold and not derecognized, outstanding at December 31, 2015, amounts to €233,484 thousand.

Purchases of non-recourse receivables also include those purchased in Portugal, under the freedom of provision of services principle, amounting to €28.4 million at December 31, 2015.

"Receivables due from subsidiaries/parent" refer to the loan granted to the subsidiary Farmafactoring España for the expansion of its *business*, and drawn for €173.2 million.

Credit quality

Again in 2015, as described below, the quality of credit remains significant: net non-performing receivables amount to €2,507 thousand (€4,226 thousand gross), with a reduction compared to the €2,936 thousand (€4,819 thousand gross) reported in 2014.

The ratio of non-performing to total non-recourse receivables purchased is equal to 0.15%, down from 0.23% in 2014.

The Bank carried out an analysis of the receivables portfolio to identify any impairment of its financial assets.

This internal 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 have been 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 loss 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* assigned by the major rating agencies to the particular Region to which the debtors belong. This rating is then applied to exposures that are not classified as non-performing Exposures At Default (EAD).

At December 31, 2015, the calculation of collective adjustments showed an impairment loss of approximately €2.9 million, higher by €0.9 million compared to 2014 owing primarily to the increase in the *outstanding* of the Bank.

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

To this end, on July 24, 2014, the European Banking Authority (EBA) proceeded to publish the "Final Draft Implementing Technical Standards on Supervisory Reporting on Forbearance and Non-performing Exposures" (EBA/ITS/2013/03/rev1 7/24//2014): this document introduces new definitions on the subject of impaired assets and *forbearance measures*.
These definitions have been introduced in the 7th update of Bank of Italy Circular 272 of January 20, 2015: such new definitions provide for the breakdown of impaired assets into:

- past due more than 90 days for impaired and performing assets;
- unlikely to pay;
- non-performing.

All these categories provide for the subcategory of *forborne* exposures.

"Net impaired assets" total €45,741 thousand and correspond to the sum of:
- Past due exposures;
- Unlikely to pay;
- Non-performing exposures.

Past due exposures
These are exposures to central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which, at December 31, 2015, are past due more than 90 days.
In particular, exposures to 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.

At December 31, 2015 net past due exposures amount to €43,234 thousand, compared to €9,779 thousand at year-end 2014, of which €9,873 thousand is due from the entities of the Public Administration compared to €6,669 thousand at the end of 2014.

Unlikely to pay

The definition of this type of exposure represents the Bank's assessment that, without recourse to actions such as the realization of collateral, it is unlikely that the debtor will pay (principal and/or interest) its credit obligations in full. This assessment is conducted regardless of the existence of any past due and unpaid amounts (or installments).
Therefore it is not necessary to wait for the explicit symptom of the event (e.g., failure to make payment) where elements exist that imply the risk of non-payment by the debtor. Exposures to *retail* parties can be classified in the "unlikely to pay" category at the level of individual transaction, provided that the bank assesses that no conditions exist for the classification in this category of the total exposure to the given debtor.

At December 31, 2015 the Bank does not have any positions classified as "unlikely to pay".

Non-performing exposures

These refer to exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any estimates of loss formulated by the Bank.
Gross non-performing receivables total €4.2 million, while net non-performing receivables amount to approximately €2.5 million, of which €0.9 million is due from Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.
With regard to the percentages of recovery established in the composition agreement, and as a result of the recognition of receivables for interest on late payments, the principal was not written down.
In 2013 Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors paid the first two distributions of about €9.6 million.
In July 2015 a third distribution was paid by the non-performing debtor, Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors, of €1.5 million, equal to approximately 6% of the liability, bringing the residual exposure from €2.4 million to €0.9 million. There was no effect on the income statement since the principal amount had not been written down.

The other non-performing positions amount to approximately €3.3 million, of which about €1.6 million was completely written off against the provision account and the net book value is now zero. The remaining positions of about €1.6 million have not been written down since they refer to positions guaranteed by sureties and to exposures relating to local entities in financial difficulties (of which €743 thousand was non-performing when purchased and €312 thousand was purchased performing and later became non-performing), for which no provision for loss was made as it is expected that at the end of the period of financial difficulty 100% of the receivables will be recovered.
The provision account for interest on late payments on non-performing positions amounts to €13.6 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 non-performing exposures, the assessment of past due exposures is made at the level of portfolio since such positions show no objective indication of loss at an individual level. The composition of impaired assets at December 31, 2015 compared to the prior year is presented in the following table.

(in € thousands)

	12.31.2015			12.31.2014		
Type	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Non-performing	**17,822**	**(15,315)**	**2,507**	**19,699**	**(16,763)**	**2,936**
Exposures with assignors	514	(281)	234	701	(275)	426
Exposures with account debtors	3,712	(1,438)	2,273	4,117	(1,608)	2,509
Provision for interest on late payments	13,596	(13,596)	0	14,880	(14,880)	0
Unlikely to pay	**0**	**0**	**0**	**0**	**(0)**	**0**
Doubtful	**0**	**0**	**0**	**62**	**(0)**	**62**
Exposures with assignors	0	0	0	0	0	0
Exposures with account debtors	0	0	0	62	(0)	62
Restructured	**0**	**0**	**0**	**0**	**0**	**0**
Exposures with assignors	0	0	0	0	0	0
Exposures with account debtors	0	0	0	0	0	0
Past due	**43,310**	**(76)**	**43,234**	**9,795**	**(16)**	**9,779**
Exposures with assignors	0	0	0	0	0	0
Exposures with account debtors	43,310	(76)	43,234	9,795	(16)	9,779
Total	**61,132**	**(15,392)**	**45,741**	**29,556**	**(16,778)**	**12,778**

Legal actions undertaken by the Bank are mainly geared towards accelerating the recovery of receivables.
During the year the Bank recovered approximately €0.2 million of receivables classified as non-performing and written down in prior years and €1.5 million relating to San Raffaele, as previously mentioned.

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

(in € thousands)

Type	12.31.2015			12.31.2014		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Impaired exposures purchased performing	46,210	(1,446)	44,764	13,974	(1,624)	12,351
Impaired exposures purchased impaired	812	(69)	743			
Performing exposures	1,692,139	(3,750)	1,688,389	1,526,051	(2,668)	1,523,383
Total	**1,739,161**	**(5,265)**	**1,733,896**	**1,540,025**	**(4,292)**	**1,535,734**

Investments

Investments consist of Banca Farmafactoring's wholly-owned equity investments in Farmafactoring España S.A. for €6,294 thousand and the Polish vehicle company Mediona for €3 thousand. The investment in Farmafactoring España refers to the share capital and the charges incidental to setting up the company and starting up activities on the Spanish market.
Farmafactoring España S.A. grew its market share in 2015, purchasing non-recourse receivables for €450 million compared to €316 million in 2014.

The ordinary shareholders' meeting of Farmafactoring España held on February 24, 2016 approved the financial statements for the year ended December 31, 2015. The subsidiary, thanks to the gains made in volumes and collections, reported a 420% increase in profit for the year to €9,131 thousand compared to €2,175 thousand in the prior year.

The profit will be entirely appropriated to equity.

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 24, 2016.

Property, plant and equipment

(in € thousands)

Item	12.31.2014	Net increase	Net decrease	12.31.2015	% of total
Buildings	7,582	211	(322)	7,470	59.40%
Land	3,685	0	0	3,685	29.30%
Systems	319	22	(141)	199	1.59%
Furniture and fixtures	222	23	(53)	192	1.53%
Electronic machines	662	703	(514)	851	6.76%
Other property and equipment	125	112	(60)	178	1.42%
Total	**12,595**	**1,072**	**(1,091)**	**12,575**	**100.00%**

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 carrying amount 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. The carrying amount net of depreciation is now €7.5 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	12.31.2015	12.31.2014	Change
Tax assets	**27,985**	**30,854**	**(2,869)**
current	*25,091*	*28,355*	*(3,263)*
deferred	*2,894*	*2,499*	*395*
Tax liabilities	**67,242**	**72,628**	**6,713**
current	*20,464*	*30,883*	*(10,419)*
deferred	*46,778*	*41,745*	*5,033*

Current tax assets amount to €25,091 thousand and mainly include advance payments for IRES and IRAP taxes.

Current tax liabilities total €20,464 thousand compared to €30,883 thousand at December 31, 2014. The amount relating to deferred tax liabilities mainly includes the taxes calculated on interest on late payments which will be paid when the interest is collected.

Such amounts in the prior year were affected by the change in method used to estimate the interest on late payments which led to the recognition, in 2014, of very significant non-recurring income in the income statement. Such income gave rise, in 2014, to impacts of about €6 million on current taxes and about €31 million on deferred taxes.

Due to banks and customers

(in € thousands)

Item	12.31.2015	12.31.2014	Change
Due to banks	688,076	968,261	(280,185)
Due to customers	1,877,502	1,315,709	561,793
Of which financial institutions	*412,568*	*378,487*	*34,081*
Total	**2,565,578**	**2,283,970**	**281,608**

"Due to banks" refers to loans received from the banking system of €482 million and also the deposit of €206 million at the Bank of Italy for Banca Farmafactoring's participation in the ECB auction at the end of 2015, 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 financial institutions" refers primarily to:
• position of €155.6 million arising from the existing collaboration with International Factor Italia S.p.A. - IFITALIA;
• position of €111.4 million arising from the existing collaboration with Unicredit Factoring S.p.A.;
• the amount payable to the vehicle Farmafactoring SPV I S.r.l. for €145.6 million relating to the aforementioned securitization structured by Deutsche Bank.

"Due to customers" includes the Conto Facto and Cuenta Facto online deposit accounts equal to €422.3 million and also repo transactions of €920 million with Cassa di Compensazione e Garanzia as the counterparty, put into place to refinance the securities portfolio of the Bank.

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 and at December 31, 2015 total €303 million.

Provisions for risks and charges

At December 31, 2015 "Provisions for risks and charges" total €5,036 thousand and largely include provisions relating to personnel recorded in "Pension funds and similar obligations" for €4,671 thousand.

(in € thousands)

Item	12.31.2014	Increase	Decrease	12.31.2015
Long-term employee benefits	3,795	939	(63)	4,671
Total	**3,795**	**939**	**(63)**	**4,671**

These obligations were measured in accordance with IAS 19 and were computed using an actuarial calculation criterion.

Comments on the Reclassified Income Statement

The reclassified income statement for the year 2015 shows a profit of €59,659 thousand.
In the prior year the profit was affected by the recognition of higher interest on late payments of €111,291 thousand arising from the change in the method of estimating such interest. For purposes of comparison with the prior year, the figures for 2014 are also presented pro-forma, that is, they are presented as if the change in method used to estimate the interest on late payments, which took place in 2014, had been applied since 2011. The comparison shows that the profit for the year of the Bank of €59.7 million would be higher than the pro-forma profit for the year 2014 by approximately €4.4 million.
Furthermore if consideration is not given to the non-recurring costs relating to the shares listing process of €1.6 million, contributions paid to the Resolution Fund and the Fondo Interbancario di Tutela dei Depositi of €1.6 million, expenses relating to other transactions for a total of €1.8 million, in addition to higher expenses for indirect taxes of €0.6 million, the profit for the year of the Group would be €63.5 million.

The key line items in the income statement are commented below.

Operating income

(in € thousands)

Item	2015	2014 PRO-FORMA	Change	Change vs. pro-forma %	2014
Maturity and interest on late payments	135,384	137,777	(2,394)	(1.74%)	238,359
Interest on securities	5,848	4,060	1,788	44.05%	4,060
Other interest	5,688	4,539	1,149	25.32%	4,539
Total interest income	**146,920**	**146,376**	**544**	**0.37%**	**246,958**
Interest expenses	(29,098)	(44,943)	15,845	(35.26%)	(44,943)
Net fee and commission income	**7,965**	**8,763**	**(798)**	**(9.11%)**	**8,763**
Gains/losses on trading	46	497	(451)	(90.79%)	497
Fair value adjustments in hedge accounting	(23)	(7)	(15)	209.53%	(7)
Gains on disposal of AFS financial assets	872	953	(82)	(8.55%)	953
Operating income	**126,682**	**111,639**	**15,043**	**13.47%**	**212,221**

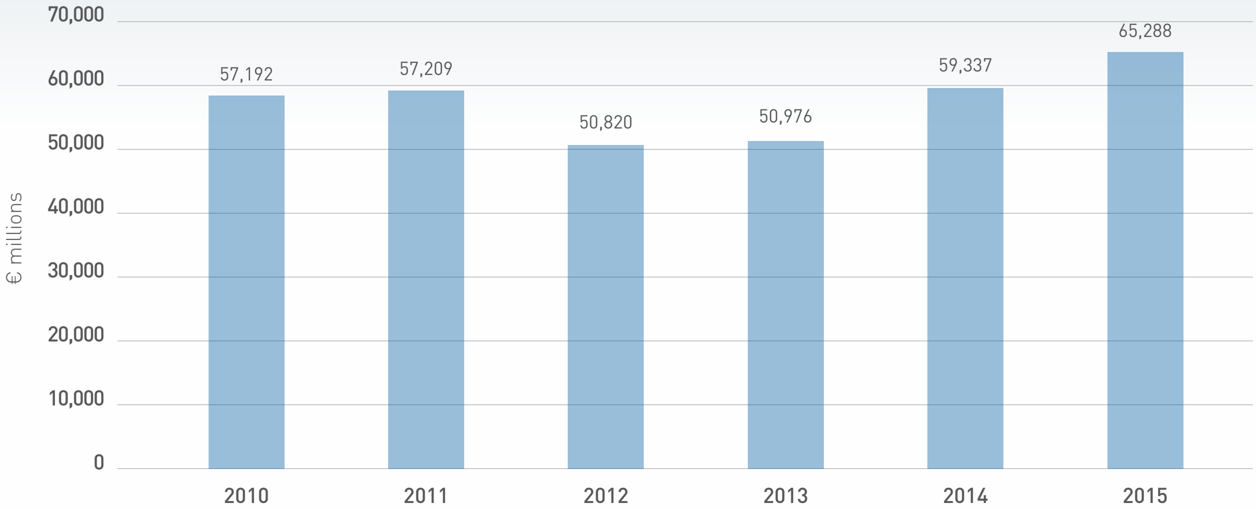
The recognition of "*Maturity* commissions" in the consolidated income statement reflects the effective interest from the application of the amortized cost criterion for measuring non-recourse receivables purchased, in accordance with IAS 39. As a consequence the income connected with such activity is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

Maturity commissions and interest on late payments amount to €135,384 thousand in 2015 compared to €238,359 thousand in the prior year which, however, included non-recurring income arising from the change in the estimation criteria for interest on late payments, in 2014, of more than €111 million.
For purposes of comparison with the prior year, the figures for interest income for 2014 are also presented pro-forma. The comparison shows an increase in 2015 of approximately €0.5 million.
The following graph shows the cumulative amount of interest on late payments to which the Group is entitled but has not yet collected on non-recourse receivables purchased (the Provision account for interest on late payments). The total is €423 million compared to €409 million in the prior year. As of December 31, 2015 an amount of €140 million was released from the provision account to income in the current and prior years.

Provision for interest on late payments

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

Collections of interest on late payments



"Interest on securities" arises from government securities classified in the *available-for-sale* and *held-to-maturity* portfolios. The amortized cost method is used for the measurement of these securities and the interest earned is recorded in the income statement using the effective interest method.

"Other interest income" refers principally to interest income on the *intercompany* loan granted to the subsidiary Farmafactoring España S.A..

"Interest expenses" decreased by about €15.8 million compared to 2014. 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 €798 thousand compared to the prior year as presented in the following table:

(in € thousands)

Item	2015	2014	Change	Change %
Fee and commission income	8,321	9,303	(982)	(10.56%)
Fee and commission expenses	(356)	(540)	184	(34.08%)
Net fee and commission income	**7,965**	**8,763**	**(798)**	**(9.11%)**

Gains/losses on trading

"Gains/losses on trading" refer to the recognition of the *fair value* change on derivative instruments which in 2015 shows a positive change of €46 thousand.

Fair value changes on derivative instruments

(in € thousands)

Item	Carrying amount	Change
Financial assets held for trading		
Amount at 12/31/2014	0	
Amount at 12/31/2015	0	0
Financial liabilities held for trading		
Amount at 12/31/2014	46	
Amount at 12/31/2015	0	46
Net fair value changes recorded in gains /losses on trading		**46**

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 2015, this item amounts to €22 thousand.
At December 31, 2015 there are no hedging instruments outstanding.

(in € thousands)

Item	Carrying amount	Change
Hedging derivatives – Balance sheet		
Hedging derivatives (item 90)	0	
Equity + Deferred tax assets	(22)	
Fair value adjustments in hedge accounting		**(22)**

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

Going concern

In accordance with IAS 1, paragraph 24, the Bank 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 in equity;
- 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	2015	2014 (2)	2013
Net interest income	117.8	202.0	99.0
Operating income	126.7	212.2	110.1
EBTDA	87.0	184.7	88.2
Profit for the year	**59.7**	**122.2**	**48.9**
R.O.E. *(Return On Equity)* (%)	**22.8%**	**65.0%**	**26.3%**
Operating income / Non-recourse volumes (%)	5.0%	9.7%	6.4%
Interest expense / Maturity commissions (%)	55.0%	65.6%	54.4%
Net interest income / Interest income (%)	80.2%	81.8%	64.8%
Non-performing (net of impairment losses) / Factoring receivables (%)	0.15%	0.23%	0.22%
Own Funds / Weighted factoring receivables (%) (1)	39.5%	45.9%	34.9%
Financial leverage	12.6	16.1	7.7
Equity	**321.6**	**310.2**	**234.6**
Own Funds	**249.6**	**259.5**	**186.9**

(1) The weighting applied to receivables due from the Italian Public Administration is equal to 50%.
(2) The figures for 2014 take into account non-recurring income arising from the change in the estimation criterion for interest on late payments.

In prospective terms, the Bank's plans for growth highlight further significant margins for expansion, shaped partly by the extension 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 of the Bank in May 2014 and updated in March 2015, 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 Bank 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 Service 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 Bank 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 Circulars 285 "*Supervisory provisions for banks*" and 286 "*Instructions for the preparation of regulatory reporting for banks and investment companies*", both of December 17, 2013, which adopt the new regulation harmonized for banks and investment firms, contained in the CRR community regulation (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 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 the 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 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, 2015 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 Bank. 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.

Own funds are composed of *Common Equity Tier 1 Capital* (CET1), which contain the main elements that form own funds, *Additional Tier 1 Capital* (AT1) and *Tier 2 Capital* (T2) net of items to be deducted and IAS/IFRS prudential filters.

The *CET1 Capital Ratio* is given by the ratio of Common Equity Tier 1 Capital to Risk-Weighted Assets.
The *Tier 1 Capital Ratio* is given by the ratio of Tier 1 Capital to Risk-Weighted Assets.
The *Total Capital Ratio* is given by the ratio of Total Own Funds to 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%).

Banca Farmafactoring's total exposure to business risks at December 31, 2015 is amply adequate in relation to the level of capitalization and the identified risk profile.
The *CET1 Capital Ratio*, the *Tier 1 Capital Ratio* and the *Total Capital Ratio* are 20.8%.

(in € millions, unless otherwise indicated)

Details	Total 12.31.2015	Total 12.31.2014
Total Tier 1 capital	**249.6**	**259.5**
Total Tier 2 capital	**0**	**0**
Own Funds	**249.6**	**259.5**
Risk-weighted assets	1,198.7	1,178.1
Tier 1 Capital Ratio (%)	***20.8%***	***22.0%***
Total Capital Ratio (%)	***20.8%***	***22.0%***

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%.

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 will present the ICAAP summary to the Bank of Italy by April 30, 2016. The ICAAP summary shows the updated risk management system for the determination of the adequacy of capital.

Pillar III – Disclosure to the public

Pursuant to Art. 433 of the CRR, banks disclose the information required by community regulations in a document at least once a year, together with their financial statements.
The regulation relating to Pillar III establishes specific obligation for the periodic publication of information relating to capital adequacy, exposure to risks and the general features of the systems used for their identification, measurement and management.

The Banca Farmafactoring Banking Group draws up this document in accordance with the provisions in effect on a consolidated basis, with reference to a consolidation area that is considered significant by regulatory requirements.

To this end, the board of directors of Banca Farmafactoring has approved a dedicated procedure denominated "Disclosure to the Public (Pillar III)".

The procedure provides that the information should be:

- approved by the board of directors before its distribution;
- published on the website **www.bancafarmafactoring.it** at least once a year, within the time frame established for the publication of the financial statements, thus within 30 days of the date of the approval of the financial statements by the shareholders' meeting.

With regard to the provisions of Bank of Italy Circular 285 of December 17, 2013, and subsequent updates, the Banca Farmafactoring Group will publish on its website **www.bancafarmafactoring.it**, at least once a year, within the time frame established for the publication of the financial statements, the "Disclosure to the Public", which, in accordance with country by country reporting requirements contains information inherent to the business, turnover and the number of staff in the various countries in which the Group is present.
The information to be rendered public is defined by Appendix A, first part, Title III, Chapter 2 of the above Circular.

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

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

On January 8, 2016 Banca Farmafactoring announced a public tender offer to purchase 100% of the shares of Magellan S.A., a Polish joint-stock company listed on the Warsaw Stock Exchange.
Magellan is a leader in the financial services market targeting the healthcare sector in Poland and operates also in the Czech Republic, Slovakia and Spain.
The tender offer is conditional on receipt by Banca Farmafactoring of approval from the Bank of Italy and clearance from the Polish Antitrust Authority.

On February 16, 2016 Professor Lorenzo Pozza, a member of the board of statutory auditors, resigned from the board. He will be replaced by Patrizia Paleologo Oriundi, the most senior alternate auditor, until a new appointment is made by the shareholders' meeting.

There are 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, 2015.

Motion for the Appropriation of Profit

Dear Shareholders,

The financial statements for the year ended December 31, 2015 of Banca Farmafactoring, which we submit for your approval, show a profit of €59,659,457, which the board motions to distribute in full, since the legal reserve has reached the maximum limit by law, together with €9,105,543 to be drawn from retained earnings, for total proposed dividends of €68,765,000.
The shareholders will thus be entitled to dividends of €40.45 for each of the 1,700,000 shares.

After appropriation of the profit, retained earnings will be equal to €91,454,515.

The Chairman
of the Board of Directors
Salvatore Messina

BANCA FARMAFACTORING

02 FINANCIAL STATEMENTS AT DECEMBER 31, 2015

Balance Sheet

(in euros)

Assets	12.31.2015	12.31.2014
10. Cash and cash equivalents	158,477	2,944
40. Available-for-sale financial assets	429,437,687	370,179,751
50. Held-to-maturity financial assets	822,858,767	955,931,754
60. Due from banks	55,392,518	74,718,358
70. Due from customers	1,943,090,669	1,547,107,668
100. Investments	6,296,585	6,293,900
110. Property, plant and equipment	12,575,546	12,595,103
120. Intangible assets	2,746,763	2,052,484
of which:		
- goodwill	*0*	*0*
130. Tax assets	27,985,019	30,853,758
a) current	*25,091,354*	*28,354,799*
b) deferred	*2,893,665*	*2,498,959*
of which under Law 214/2011	*546,940*	*469,560*
150. Other assets	4,290,105	3,388,545
Total Assets	**3,304,832,136**	**3,003,124,265**

(in euros)

Liabilities and Equity	12.31.2015	12.31.2014
10. Due to banks	688,075,997	968,261,229
20. Due to customers	1,877,502,235	1,315,708,976
30. Securities issued	302,962,115	301,912,312
40. Financial liabilities held for trading	0	45,760
60. Hedging derivatives	0	47,224
80. Tax liabilities	67,241,973	72,628,180
a) current	*20,463,992*	*30,882,955*
b) deferred	*46,777,981*	*41,745,225*
100. Other liabilities	41,558,315	29,431,955
110. Employee severance indemnities	883,124	716,829
120. Provisions for risks and charges:	5,036,204	4,157,733
a) pension funds and similar obligations	*4,671,245*	*3,794,509*
b) other provisions	*364,959*	*363,224*
130. Valuation reserves	4,183,573	4,034,924
160. Reserves	126,829,143	53,076,987
180. Share capital	130,900,000	130,900,000
200. Profit for the year	59,659,457	122,202,156
Total Liabilities and Equity	**3,304,832,136**	**3,003,124,265**

Income Statement

(in euros)

Item	2015	2014
10. Interest and similar income	146,919,895	246,957,869
20. Interest and similar expenses	(29,098,152)	(44,943,116)
30. Net interest margin	**117,821,743**	**202,014,753**
40. Fee and commission income	8,320,988	9,303,083
50. Fee and commission expenses	(355,704)	(539,618)
60. Net fees and commissions	**7,965,284**	**8,763,465**
80. Gains/losses on trading	45,760	496,971
90. Fair value adjustments in hedge accounting	(22,837)	(7,378)
100. Gains (losses) on disposals/repurchases of:		
b) available-for-sale financial assets	*871,871*	*953,391*
120. Operating income	**126,681,821**	**212,221,202**
130. Impairment losses/reversals on:		
a) receivables and loans	*(1,125,531)*	*43,395*
140. Net profit from banking activities	**125,556,290**	**212,264,597**
150. Administrative expenses:		
a) personnel costs	*(17,512,978)*	*(14,095,591)*
b) other administrative expenses	*(25,930,694)*	*(19,780,889)*
160. Net provisions for risks and charges	(878,471)	(1,261,757)
170. Net adjustments to/writebacks on property, plant and equipment	(1,092,157)	(1,031,151)
180. Net adjustments to/writebacks on intangible assets	(1,022,423)	(689,285)
190. Other operating income/expenses	4,594,006	7,572,923
200. Operating expenses	**(41,842,717)**	**(29,285,750)**
250. Profit before tax from continuing operations	**83,713,573**	**182,978,847**
260. Income taxes on profit from continuing operations	(24,054,116)	(60,776,691)
270. Profit after tax from continuing operations	**59,659,457**	**122,202,156**
290. Profit for the year	**59,659,457**	**122,202,156**

Statement of Comprehensive Income

(in euros)

Item	2015	2014
10. Profit for the year	**59,659,457**	**122,202,156**
Other comprehensive income that will not be reclassified subsequently to the income statement, net of tax		
20. Property, plant and equipment 30. Intangible assets 40. Defined benefit plans 50. Non-currents assets classified as held for sale 60. Portion of valuation reserves from investments accounted for using the equity method	 (121,102)	 1,546
Other comprehensive income that will be reclassified subsequently to the income statement, net of tax		
70. Hedges of net investments in foreign subsidiaries 80. Exchange differences 90. Cash flow hedges 100. Available-for-sale financial assets 110. Non-currents assets classified as held for sale 120. Portion of valuation reserves from investments accounted for using the equity method	 26,669 243,082	 (26,669) (158,523)
130. Total Other comprehensive income, net of tax	**148,649**	**(183,645)**
140. Comprehensive income (items 10 + 130)	**59,808,106**	**122,018,510**

Statement of Changes in Equity

(in euros)

For the year ended December 31, 2015

	Opening balance 12/31/2014	Adjustments to opening balance	Opening balance 1/1/2015	Appropriation of prior year profit		Change in equity during the year								Equity 12/31/2015
							Equity transactions							
				Reserves	Dividends and other appro-priations	Change in reserves	New shares issue	Purchase of treasury shares	Payment of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income year 2015	
Share capital:														
a) ordinary shares	130,900,000		130,900,000											**130,900,000**
b) other shares														
Share premium														
Reserves														
a) income reserves	53,076,987		53,076,987	73,752,156										**126,829,143**
b) other reserves														
Valuation reserves	4,034,924		4,034,924										148,649	**4,183,573**
Equity instruments														
Treasury shares														
Profit for the year	122,202,156		122,202,156	(73,752,156)	(48,450,000)								59,659,457	**59,659,457**
Equity	**310,214,067**		**310,214,067**		**(48,450,000)**								**59,808,106**	**321,572,173**

(in euros)

For the year ended December 31, 2014

				Appropriation of prior year profit		Change in equity during the year								
							Equity transactions							
	Opening balance 12/31/2013	Adjustments to opening balance	Opening balance 1/1/2014	Reserves	Dividends and other appro-priations	Change in reserves	New shares issue	Purchase of treasury shares	Payment of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Comprehensive income year 2014	Equity 12/31/2014
Share capital:														
a) ordinary shares	130,900,000		130,900,000											**130,900,000**
b) other shares														
Share premium														
Reserves														
a) income reserves	50,595,778		50,595,778	2,480,449		761								**53,076,987**
b) other reserves														
Valuation reserves	4,218,569		4,218,569										(183,645)	**4,034,924**
Equity instruments														
Treasury shares														
Profit for the year	48,890,449		48,890,449	(2,480,449)	(46,410,000)								122,202,156	**122,202,156**
Equity	**234,604,796**		**234,604,796**		**(46,410,000)**	**761**							**122,018,510**	**310,214,067**

Statement of Cash Flows Indirect Method

(in euros)

	Amount	
	12.31.2015	12.31.2014
A. OPERATING ACTIVITIES		
1. Operations	**63,777,210**	**125,140,954**
- profit for the year (+/-)	59,659,457	122,202,156
- 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 (+/-)	1,125,531	(43,395)
- net adjustments to/writebacks on property, plant and equipment and intangible assets (+/-)	2,113,750	1,720,436
- net provisions and other expenses/revenues (+/-)	878,471	920,238
- unpaid taxes and tax credits (+/-)		
- net losses/reversals of disposal groups of assets held for sale, net of tax effect (+/-)		
- other changes (+/-)		
2. Cash flows from/used by financial assets	**301,757,382**	**1,569,141,650**
- financial assets held for trading	-	(4,877)
- financial assets at fair value through profit or loss		
- available-for-sale financial assets	59,014,854	288,322,966
- due from banks: on demand	(19,325,839)	(41,774,748)
- due from banks: other receivables		
- due from customers	397,108,533	386,889,948
- other assets	(135,040,165)	935,708,360
3. Cash flows from/used by financial liabilities	**289,376,863**	**1,493,277,764**
- due to banks: on demand	(280,185,232)	163,810,109
- due to banks: other amounts due		
- due to customers	561,793,259	991,422,129
- securities issued	1,049,803	301,912,312
- financial liabilities held for trading	(45,760)	(501,848)
- financial liabilities at fair value through profit or loss		
- other liabilities	6,764,793	36,635,063
Net cash flows from/used in operating activities	***51,396,691***	***48,935,549***
B. INVESTING ACTIVITIES		
1. Cash flows from	**0**	**0**
- 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		
2. Cash flows used in	**(2,791,157)**	**(2,523,758)**
- purchases of investments	(2,686)	-
- purchases of held-to-maturity financial assets		
- purchases of property, plant and equipment	(1,071,770)	(903,618)
- purchases of intangible assets	(1,716,702)	(1,620,139)
- purchases of businesses		
Net cash flows from/used in investing activities	***(2,791,157)***	***(2,523,758)***
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares		
- issues/purchases of equity instruments		
- payment of dividends and other	(48,450,000)	(46,410,000)
Net cash flows from/used in financing activities	***(48,450,000)***	***(46,410,000)***
NET INCREASE IN CASH AND CASH EQUIVALENTS	**155,533**	**1,792**

Reconciliation

(in euros)

Item	Amount	
	12.31.2015	12.31.2014
Cash and cash equivalents at beginning of the year	2,944	1,152
Change in cash and cash equivalents from/used during the year	155,533	1,792
Cash and cash equivalents: effect of exchange rate differences		
Cash and cash equivalents at end of the year	**158,477**	**2,944**

Notes to the Financial Statements

The notes are arranged in the following order:

Part A - Accounting Policies
Part B - Balance Sheet
Part C - Income Statement
Part D - Comprehensive Income
Part E - Information on Risks and related Risk Management Policies
Part F - Equity
Part H - Related Party Transactions

Part A - Accounting Policies

A.1 - GENERAL CRITERIA

Section 1 - Statement of compliance with international financial reporting standards

The 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 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 financial statements at December 31, 2015 have been prepared in accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005, and subsequent updates, "*The Financial Statements of Banks: layout and preparation*".
The 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 adopted are described below and are pursuant to the provisions of 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

New IFRS standards, amendments or interpretations applicable to the financial statements for the year ended December 31, 2015

• ***Amendment to IAS 19, "Employee Benefits", regarding defined benefits plans***
The amendment, endorsed by Regulation 2015/29, is not obligatory for financial statements for the year ended December 31, 2015. The objective of the amendment is to simplify the accounting for contributions by third parties or employees to defined benefit plans that are independent of the number of years of service.

• ***Annual Improvements 2012***
Endorsed by Regulation 2015/28, the Annual Improvements 2012 are not obligatory for financial statements for the year ended December 31, 2015, but application is voluntary, also retroactively. The annual improvements contain amendments to the following accounting standards.

- ***IFRS 2, "Share-based Payments"***: Appendix A clarifies the definition of 'vesting condition' as a "condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement". The definitions of "service condition" and "performance condition" were also introduced.
- ***IFRS 3, "Business Combinations"***: was amended to clarify that contingent consideration falls within the definition of financial instrument and must be classified as a financial liability or as equity on the basis of the indications contained in IAS 32.
- ***IFRS 8, "Operating Segments"***: introduces the requirement of disclosure on judgments made by management in applying the aggregation criteria to operating segments, giving a description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. In addition, a reconciliation is required for the total of the reportable segments' assets to the entity's assets in the statement of financial position only if such amounts are regularly provided to the chief operating decision maker.
- ***IFRS 13, "Fair Value Measurement"***: the Basis for Conclusions of IFRS 13 has been modified to clarify that it is possible to measure short-term receivables and payables at their invoice amounts without discounting if the effect of not discounting is immaterial.
- ***IAS 16, "Property, plant and equipment" and IAS 38, "Intangible Assets"***: were amended to clarify how historical cost and accumulated depreciation of an asset must be evaluated when the entity adopts the criteria of revalued cost.
- ***IAS 24, "Related Party Disclosures"***: the amendment establishes the disclosure necessary when there is a third-party entity that provides key management personnel services to the reporting entity that prepares the financial statements.

• ***Annual Improvements 2013***
Endorsed by Regulation 1361/2014, the Annual Improvements 2013 contain amendments to the following accounting standards:

- *IFRS 1, "First-time Adoption of International Financial Reporting Standards"*: the Basis for Conclusions of IFRS 1 was amended to clarify that if a new or revised IFRS is not yet mandatory but permits early application, that IFRS is permitted, but not required, to be applied in the entity's first IFRS financial statements, on condition that the same version is applied in all periods presented.
- *IFRS 13, "Fair Value Measurement"*: clarifies that the paragraph contained in IFRS 13 according to which a group of financial assets and liabilities can be measured at fair value on a net basis applies to all contracts within the scope of, and accounted for in accordance with IAS 39 (or IFRS 9) regardless of whether they meet the definitions of financial assets or financial liabilities in IAS 32.

• *IFRIC 21, "Levies"*

The interpretation endorsed by Regulation 634/2014, comes into effect for annual periods beginning on or after June 17, 2014.

IFRIC 21 covers the accounting for outflows imposed on entities by governments (levies) other than income taxes, fines or other penalties for which the entity does not receive specific goods and services. The objective of the interpretation is to provide guidance for the accounting of a liability to pay a levy and explains what the "obligating event" is that gives rise to the recognition of a liability in accordance with IAS 37.

New standards, amendments or interpretations in effect from January 1, 2016

• *Amendment to IAS 16, "Property, plant and equipment" and IAS 38,"Intangible assets", on depreciation and amortization*

The amendment to both standards establishes that it is not appropriate to calculate the depreciation of an asset according to revenue-based methods.

• *Amendments to IAS 27, "Equity Method in Separate Financial Statements"*

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.

• *Annual Improvements Cycle 2012-2014*

The amendments contained in the Annual Improvements cycle 2012-2014 to existing standards are as follows:

- *IFRS 7, "Service Contracts"*: if any entity transfers a financial asset to third parties and complies with all the conditions of IAS 39 for the derecognition of the asset, the amendment to IFRS 7 requires disclosure of any continuing involvement that the entity could still have in the transferred asset. The amendments to IFRS 7 also included a description of the term "continuing involvement" for purposes of the transfer disclosure requirements and adds a specific guide to help management determine whether the terms of the agreement for the rendering of services regarding the transferred asset, do or do not determine a continuing involvement.
- *IAS 19, "Employee Benefits"*: the standard requires that the rate used to discount post-employment benefits shall be determined by reference to market yields on high quality corporate bonds. In countries for which there is no *deep market* in such high quality bonds, the market yields on government bonds denominated in that currency shall be used.

• *Amendments to IAS 1, "Presentation of financial statements" on the disclosure initiative*
The amendments clarify the various guidance contained in IAS 1 on materiality, the aggregation of line items, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendments also modify the additional information requirements for other components of other comprehensive income in the statement of comprehensive income.
The amendments also added additional examples for general disclosures, such as those on the systematic presentation of the notes and the identification of accounting policies, etc.

• *IFRS 9 "Financial instruments" (effective from January 1, 2018)*
IFRS 9 replaces IAS 39 and contains a model for the measurement of financial instruments based on three categories: amortized cost, fair value through profit or loss and fair value through other comprehensive income. The standard introduces a new 'expected loss' impairment model which differs from the one currently envisaged by IAS 39. Moreover, a substantially reformed approach is introduced for hedge accounting.

Section 3 - Significant events subsequent to the end of the year

On January 8, 2016 Banca Farmafactoring announced a public tender offer to purchase 100% of the shares of Magellan S.A., a Polish joint-stock company listed on the Warsaw Stock Exchange.
Magellan is a leader in the financial services market targeting the healthcare sector in Poland and operates also in the Czech Republic, Slovakia and Spain.
The tender offer is conditional on receipt by Banca Farmafactoring of approval from the Bank of Italy and clearance from the Polish Antitrust Authority.

On February 16, 2016 Professor Lorenzo Pozza, a member of the board of statutory auditors, resigned from the board. He will be replaced by Patrizia Paleologo Oriundi, the most senior alternate auditor, until a new appointment is made by the shareholders' meeting.

There are 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, 2015.

Section 4 - 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, 2015 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, 2015 provides the information needed to identify the major assumptions and subjective judgments used in the preparation of the financial statements.

Audit

The shareholders' meeting of Farmafactoring S.p.A. 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 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.

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, consider-

ing 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.

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 financial 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 130 "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 130 "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 130 "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.

3 - Held-to-maturity financial assets

Recognition
Held-to-maturity financial assets are initially recognized 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 transactions, loan or other temporary refinancing transactions.

As set out in IAS 39, a financial asset cannot be classified as held-to-maturity 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 (HTM) financial assets are measured at amortized cost using the effective interest method.

In the event of a sale or derecognition of a held-to-maturity 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 financial 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.

4 - Receivables

Recognition
Receivables are initially recognized 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.
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 according 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 assessment of *performing receivables* in order to correctly monitor the intrinsic risk of the portfolio even in the absence of individual i*mpairment* 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. This rating is then applied to exposures that are not classified as non-performing Exposures At Default (EAD).

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* were assigned impaired receivables status in accordance with Bank of Italy regulations consistent with IAS standards currently in effect. They are measured at estimated realizable value by recognizing any impairment losses determined on an individual basis, based on 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.

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.

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.

As regards the calculation of amortized cost, including interest on late payments recognized on the accrual basis, the Bank integrated the time series of data utilized in the prior year, regarding the percentages and collection times of interest on late payments, with the collections recorded in 2015. The outcome of this integration has confirmed, on the basis of the times series analysis, the recoverability rate of 40% for interest on late payments and 1800 days for collection times.
These recovery percentages have not been applied to the interest on late payments of non-performing positions, which have been entirely written off.

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.

6 - Hedging transactions

Recognition

Derivative financial instruments designated as hedges are initially recognized at their *fair value*. At December 31, 2015 there are no outstanding hedging transactions.

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.

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 90 "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.

7 - Investments

Recognition and classification

The item consists of investments over which the Bank has control.

Specifically, this refers to the company Farmafactoring España S.A., a wholly-owned subsidiary, initially recognized at cost. Cost is represented by the value of share capital subscribed to and the costs incurred for setting up the company.

Measurement

The investment is measured at cost and is adjusted by any impairment in the carrying amount and recognized in the income statement. Dividends, if any, are recognized on the accrual basis in item 70 "Dividends and similar income" in the income statement, on condition that the shareholders' meeting of the investee company that declares the distribution takes place prior to the shareholders' meeting of the parent.

Derecognition

Investments are derecognized when the contractual rights to the cash flows from the investments expire or when the investments are sold with the transfer of substantially all the risks and rewards deriving from their ownership.

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 150 b) "other administrative expenses", if they refer to assets used in the business.

Classification

Property, plant and equipment include movable property and buildings, systems, other machinery and equipment held for use by the Bank 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 34 years
- furniture and fixtures: maximum 9 years
- systems: maximum 14 years
- machines: maximum 3 years
- other: maximum 11 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 170 "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 240 "Gains/losses on disposal of investments".

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 4 years
Other intangible assets:	maximum 6 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 180 "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 sales proceeds or recoverable amount

and carrying amount is recognized in the income statement in item 240 "Gains/losses on disposal of investments".

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.

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.

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 or 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.

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 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 2013, 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 times 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 times 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 2015, as in 2014, 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.
The *fair value* change in such financial assets/liabilities from December 31, 2014 required the recognition in the income statement of a net gain/loss (+/-) on trading.

A.4.3 Fair value hierarchy

In 2015, as in 2014, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information

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

(in € thousands)

Financial assets/liabilities measured at fair value	12.31.2015			12.31.2014		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading						
2. Financial assets at fair value through profit or loss						
3. Available-for-sale financial assets	429,414		23	370,157		23
4. Hedging derivatives						
5. Property, plant and equipment						
6. Intangible assets						
Total	**429,414**		**23**	**370,157**		**23**
1. Financial liabilities held for trading					46	
2. Financial liabilities at fair value						
3. Hedging derivatives					47	
Total					**93**	

Key:
L1 = Level 1
L2 = Level 2
L3 = Level 3

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

(in € thousands)

Assets and liabilities not measured at fair value or measured at fair value on a non-recurring basis	12.31.2015				12.31.2014			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Held-to-maturity financial assets	822,859	826,912			955,932	957,357		
2. Due from banks	55,393			55,393	74,718			74,718
3. Due from customers	1,943,091			1,943,091	1,547,108			1,547,108
4. Property, plant and equipment held for investment purposes								
5. Non-current assets and disposal groups of assets held for sale								
Total	**2,821,342**	**826,912**		**1,998,483**	**2,577,758**	**957,357**		**1,621,826**
1. Due to banks	688,076			688,076	968,261			968,261
2. Due to customers	1,877,502			1,877,502	1,315,709			1,315,709
3. Securities issued	302,962	302,277			301,912	299,175		
4. Liabilities associated with assets held for sale								
Total	**2,868,540**	**302,277**		**2,565,578**	**2,585,883**	**299,175**		**2,283,970**

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

Part B - Balance Sheet

ASSETS

Section 1 - Cash and cash equivalents - Item 10

€158 thousand

1.1 Cash and cash equivalents: breakdown

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
a) Cash	1	3
b) Demand deposits with Central Banks	157	
Total	**158**	**3**

Cash and cash equivalents are represented by the cash fund and by the account that Banca Farmafactoring has with the Bank of Italy.

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

€429,438 thousand

The balance mainly represents the value of government securities purchased by Banca Farmafactoring to protect against liquidity risk and to optimize the cost of money for a total nominal amount of €419 million. The securities held are at variable rates (CCT) with a residual maturity date within two years.

These securities are classified in the Available-for-sale (AFS) portfolio and as such are measured at *fair value*. 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, 2015, the fair value reserves on available-for-sale securities amount to approximately €481 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:

(in €/cents)

Description	Carrying amount (€/cent)	No. of shares purchased	Nominal value per share (€/cents)	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, 2014)

Head office	Bologna - Strada Maggiore n. 44
Share capital	€6,605,829.68 fully paid-in
Equity	4,874,450
Profit for the year	80,063

4.1 Available-for-sale financial assets: breakdown by type

(in € thousands)

Items/Amounts	Total 12.31.2015			Total 12.31.2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities						
1.1 Structured securities						
1.2 Other	429,414			370,157		
2. Equity instruments						
2.1 Measured at fair value						
2.2 Carried at cost			23			23
3. Units in investment funds						
4. Loans						
Total	**429,414**		**23**	**370,157**		**23**

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

(in € thousands)

Items/Amounts	Total 12.31.2015	Total 12.31.2014
1. Debt securities		
a) Governments and Central Banks	429,414	370,157
b) Other public sector entities		
c) Banks		
d) Other issuers		
2. Equity instruments		
a) Banks		
b) Other issuers:		
- insurance companies		
- financial companies		
- non-financial companies	23	23
- other		
3. Units in investment funds		
4. Loans		
a) Governments and Central Banks		
b) Other public sector entities		
c) Banks		
d) Other entities		
Total	**429,438**	**370,180**

Section 5 - Held-to-maturity financial assets - Item 50

€822,859 thousand

The balance consists entirely of purchases of government securities, classified in the *held-to-maturity* portfolio, to protect against liquidity risk and to optimize the cost of money, for a total nominal amount of €799.5 million.
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 held-to-maturity portfolio and therefore measured at amortized cost. The interest earned is recorded in the income statement according to the effective interest method.

The held-to-maturity portfolio refers to financial assets which the Bank 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, 2015 is €826,912 thousand, with a positive fair value change compared to the carrying amount at the same date of €4,053 thousand, which is not recognized in the financial statements.

5.1 Held-to-maturity financial assets: breakdown by type

(in € thousands)

	Total 12.31.2015				Total 12.31.2014			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities								
- structured								
- other	822,859	826,912			955,932	957,357		
2. Loans								

Key:
FV = *fair value*
CA = carrying amount

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

(in € thousands)

Types of transactions/Amounts	Total 12.31.2015	Total 12.31.2014
1. Debt securities		
a) Governments and Central Banks	822,859	955,932
b) Other public sector entities		
c) Banks		
d) Other issuers		
2. Loans		
a) Governments and Central Banks		
b) Other public sector entities		
c) Banks		
d) Other entities		
Total	**822,859**	**955,932**
Total *fair value*	**826,912**	**957,357**

Section 6 - Due from banks - Item 60

€55,393 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: breakdown by type

(in € thousands)

Types of transactions/Amounts	Total 12.31.2015				Total 12.31.2014			
	CA	FV			CA	FV		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Due from Central Banks								
1. Time deposits								
2. Mandatory reserve								
3. Reverse repos								
4. Other					37,194			37,194
B. Due from banks								
1. Loans								
1.1 Current accounts and demand deposits	49,605			49,605	36,606			36,606
1.2. Time deposits	5,788			5,788	919			919
1.3. Other loans:								
- reverse repos								
- finance leases								
- other								
2. Debt securities								
2.1. Structured securities								
2.2. Other								
Total	**55,393**			**55,393**	**74,718**			**74,718**

Key:
FV = *fair value*
CA = carrying amount

The time deposits of €5,788 thousand relate 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

€1,943,091 thousand

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

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. As regards the calculation of amortized cost, including interest on late payments recognized on the accrual basis, the Bank integrated the time series of data utilized in the prior year, regarding the percentages and collection times of interest on late payments, with the collections recorded in 2015. The outcome of this integration has confirmed, on the basis of the times series analysis, the recoverability rate of 40% for interest on late payments and 1800 days for collection times.

These recovery percentages have not been applied to the interest on late payments of non-performing positions, which have been entirely written off.

The cumulative amount of interest on late payments to which the Bank is entitled but has not yet collected, on non-recourse receivables purchased (the provision account for interest on late payments), is €423 million, of which only €140 million was recognized in the income statement in the current and prior years.

7.1 Due from customers: breakdown by type

"Due from customers" is composed as follows:

• "performing" non-recourse receivables purchased, recorded in the name of the account debtor, which meet the conditions for *derecognition*, measured at amortized cost, with a balance of €1,651,014 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 €233,484 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 one transaction for the securitization of healthcare receivables.
• "Impaired assets" total €45,741 thousand and comprise:
- **Non-performing receivables:** refer to exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any estimates of loss formulated by the Bank. Non-performing positions thus include all doubtful uncollectible receivables positions, net of writedowns for estimated impairment losses and any writebacks.
At December 31, 2015 these amount to €2,507 thousand, of which about €0.9 million corresponds to the exposure to the debtor Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors. 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, a decision was taken not to make any provision for principal since the total of the collections deriving from the agreement were in line with the outstanding amount of principal.
In 2013 Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors paid the first two distributions, of about €9.6 million.
In July 2015 a third distribution was paid by the non-performing debtor, Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors, of €1.5 million equal to approximately 6% of the liability, bringing the residual exposure from €2.4 million to €0.9 million. There was no effect on the income statement since the principal amount had not been written down.
The other gross non-performing positions amount to approximately €3.3 million, of which about €1.7 million was completely written off against the provision account and the net book value is now zero. The remaining positions of about €1.6 million have not been written down since they refer to positions guaranteed by sureties and to exposures relating to local entities in financial difficulties (of which €743 thousand was non-performing when purchased and €312 thousand was purchased performing and later became non-performing), for which no provision for loss was made as it is expected that at the end of the period of financial difficulty 100% of the receivables will be recovered.
The provision account for interest on late payments on non-performing positions amounts to €13.6 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.
- **Past due receivables** amount to €43,234 thousand and consist of receivables from central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which, at December 30, 2015, are past due more than 90 days.
In particular, exposures to 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.

• Other performing loans due from customers amount to €127,288 thousand and primarily include:
- late interest accrued and accruing for about €82,882 thousand;
- advances to assignors of €2,230 thousand;
- receivables from assignors for legal expenses to be recovered of €2,204 thousand;
- receivables for fees to be invoiced to assignors and interest on extended payment terms granted and to be charged to debtors of €2,213 thousand;
- margins paid to Cassa di Compensazione e Garanzia to guarantee operativity in repo transactions of €29,063 thousand.

Receivables purchased below face value amount to €22,696 thousand.

(in € thousands)

Types of transactions / Amounts	Total 12.31.2015						Total 12.31.2014					
	Carrying amount			*Fair value*			Carrying amount			*Fair value*		
	Not impaired	Impaired		L1	L2	L3	Not impaired	Impaired		L1	L2	L3
		Purchased	Other					Purchased	Other			
Loans	**1,897,350**	**743**	**44,998**				**1,534,330**		**12,778**			
1. Current accounts				X	X	X				X	X	X
2. Reverse repos				X	X	X				X	X	X
3. Mortgages				X	X	X				X	X	X
4. Credit cards, personal loans, garnishment of wages				X	X	X				X	X	X
5. Finance leases				X	X	X				X	X	X
6. Factoring	1,606,028	743	44,243	X	X	X	1,195,388		12,263	X	X	X
7. Other loans	291,322		755	X	X	X	338,942		515	X	X	X
Debt securities												
8. Structured securities				X	X	X				X	X	X
9. Other				X	X	X				X	X	X
Total	**1,897,350**	**743**	**44,998**				**1,534,330**		**12,778**			

Legal actions undertaken are mainly geared towards accelerating the recovery of receivables.
All purchases of non-recourse receivables refer to factoring transactions pursuant to Law 52/91.

Fair value

Receivables and loans in the financial statements mainly refer to 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

(in € thousands)

Types of transactions/ Amounts	Total 12.31.2015			Total 12.31.2014		
	Not impaired	Impaired		Not impaired	Impaired	
		Purchased	Other		Purchased	Other
1. Debt securities:						
a) Governments						
b) Other public sector entities						
c) Other issuers						
- non-financial companies						
- financial companies						
- insurance companies						
- other						
2. Loans to:						
a) Governments	281,571		31	110,773		5,247
b) Other public sector entities	1,391,990	743	10,029	1,385,741		3,394
c) Other entities						
- non-financial companies	*6,491*		*33,707*	*23,726*		*1,050*
- financial companies	*202,182*			*13,655*		
- insurance companies						
- other	*15,116*		*1,231*	*8,285*		*3,087*
Total	**1,897,350**	**743**	**44,998**	**1,542,180**		**12,778**

Section 10 - Investments - Item 100

€6,297 thousand

Investments consist of Banca Farmafactoring's wholly-owned equity investments in Farmafactoring España S.A. for €6,294 thousand and the Polish vehicle company Mediona for €3 thousand.
The value of the investment in Farmafactoring España of €6,294 thousand refers to share capital fully paid in by the sole shareholder, Banca Farmafactoring S.p.A., and incidental charges in connection with setting up the company and starting-up activities on the Spanish market.
Key information about Farmafactoring España S.A. at December 31, 2015 is presented in the following table.
The financial statements of the Spanish company refer to the year ended December 31, 2015.

10.1 Investments: information on investments

Name	Headquarters	Operating offices	Investment holding %	Voting rights %
A. Subsidiaries, wholly-owned				
1) Farmafactoring España S.A.U.	Madrid (Spain)	Madrid (Spain)	100%	100%
2) Mediona spółka z ograniczoną odpowiedzialnością	Warsaw (Poland)	Warsaw (Poland)	100%	100%
B. Subsidiaries under joint control				
C. Companies under significant influence				

10.2 Significant investments: carrying amount, fair value and dividends received

(in € thousands)

Name	Carrying amount	Fair value	Dividends received
A. Subsidiaries, wholly-owned			
1) Farmafactoring España S.A.U.	6,294		
2) Mediona spółka z ograniczoną odpowiedzialnością	3		
B. Subsidiaries under joint control			
C. Companies under significant influence			
Total	**6,297**		

10.3 Significant investments: accounting information

(in € thousands)

Name	Cash and cash equivalents	Financial assets	Non-financial assets	Financial liabilities	Non-financial liabilities	Total revenues	Interest margin	Adjustments to/writebacks on property, plant and equipment and intangible asset	Profit (loss) before tax from continuing operations	Profit (loss) after tax from continuing operations	Profit (loss) after tax from discontinued operations	Profit for the year	Other comprehensive income after tax	Comprehensive income
A. Subsidiaries, wholly-owned														
1) Farmafactoring España S.A.U.			198,472		182,467	18,996	15,024	(23)	12,606	9,131		9,131		9,131
2) Mediona spółka z ograniczoną odpowiedzialnością	1													0
B. Subsidiaries under joint control														
C. Companies under significant influence														

10.5 Investments: annual changes

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
A. Beginning balance	**6,294**	**6,294**
B. Increases		
B1. Purchases	3	
B2. Impairment reversals		
B3. Revaluations		
B4. Other changes		
C. Decreases		
C1. Sales		
C2. Impairment losses		
C3. Other changes		
D. Ending balance	**6,297**	**6,294**
E. Total revaluations		
F. Total adjustments		

Section 11 - Property, plant and equipment - Item 110
€12,576 thousand

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

(in € thousands)

Assets/Amounts	Total 12.31.2015	Total 12.31.2014
1. Owned assets		
a) land	3,685	3,685
b) buildings	7,470	7,582
c) furniture and fixtures	252	274
d) electronic systems	851	662
e) other	317	393
2. Leased assets acquired under finance leases		
a) land		
b) buildings		
c) furniture and fixtures		
d) electronic systems		
e) other		
Total	**12,576**	**12,595**

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

(in € thousands)

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
A. **Gross beginning balance**	**3,685**	**16,617**	**2,349**	**5,387**	**5,133**	**33,171**
A.1 Total net impairment loss		(9,035)	(2,075)	(4,725)	(4,740)	(20,576)
A.2 **Net beginning balance**	**3,685**	**7,582**	**274**	**662**	**393**	**12,595**
B. **Increases:**						
B.1 Purchases		210	50	704	108	1,072
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						
C. **Decreases:**						
C.1 Disposals						
C.2 Depreciation		(322)	(71)	(515)	(183)	(1,092)
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						
D. **Net ending balance**	**3,685**	**7,470**	**252**	**851**	**317**	**12,576**
D.1 Net impairment loss		(9,358)	(2,147)	(5,239)	(4,924)	(21,667)
D.2 **Gross ending balance**	**3,685**	**16,828**	**2,399**	**6,090**	**5,241**	**34,243**
E. Carried at cost	3,685	16,828	2,399	6,090	5,241	34,243

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 carrying amount 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 12 - Intangible assets - Item 120

€2,747 thousand

12.1 Intangible assets: breakdown by type of asset

(in € thousands)

	Total 12.31.2015		Total 12.31.2014	
Assets/Amounts	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill				
A.2 Other intangible assets				
A.2.1 Assets measured at cost:				
a) intangible assets generated internally				
b) other	2,747		2,052	
A.2.2 Assets measured at *fair value*:				
a) intangible assets generated internally				
b) other				
Total	**2,747**		**2,052**	

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.

12.2 Intangible assets: annual changes

(in € thousands)

	Goodwill	Other intangible assets: generated internally		Other intangible assets: other		Total
		DEF.	INDEF.	DEF.	INDEF.	
A. **Beginning balance**				**2,052**		**2,052**
A.1 Total net impairment loss						
A.2 **Net beginning balance**				**2,052**		**2,052**
B. **Increases**						
B.1 Purchases				1,717		1,717
B.2 Increase in internally generated intangible assets						
B.3 Writebacks						
B.4 Positive fair value changes allocated to						
- equity						
- income statement						
B.5 Exchange gains						
B.6 Other changes						
C. **Decreases**						
C.1 Disposals						
C.2 Adjustments for						
- amortization				(1,022)		(1,022)
- impairment losses allocated to						
+ equity						
+ income statement						
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						
D. **Net ending balance**				**2,747**		**2,747**
D.1 Net impairment loss						
E. **Gross ending balance**				**2,747**		**2,747**
F. Carried at cost				2,747		2,747

Ke:
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 13 - Tax assets and liabilities - Item 130 of assets and Item 80 of liabilities

Current tax assets amount to €25,091 thousand and mainly include advance payments for IRES and IRAP taxes paid by Banca Farmafactoring.

Current tax liabilities in 2015 amount to €20,464 thousand compared to €30,882 thousand at December 31, 2014. The latter amount, for the prior year, was affected by the change in method used to estimate the provision for interest on late payments adopted by the Bank. This led to the recognition, in 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, in 2014, to higher current taxes of about €6 million and higher deferred taxes of about €31 million.

13.1 Deferred tax assets: breakdown
€2,894 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.

13.2 Deferred tax liabilities: breakdown
€46,778 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. 917 of 1986, as well as the provision account for the impairment of receivables and loans referring to previous years.

13.3 Deferred tax assets: annual changes (through the income statement)
€2,523 thousand

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
1. Beginning balance	**2,147**	**1,595**
2. Increases		
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	556	837
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognized during the year		
a) reversals	(179)	(285)
b) writedowns of non-recoverable items		
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		
4. Ending balance	**2,523**	**2,147**

BANCA FARMAFACTORING

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

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
1. Beginning balance	**470**	**509**
2. Increases	77	
3. Decreases		
3.1 Reversals		(39)
3.2 Conversion into tax credit		
a) due to reported losses		
b) due to tax losses		
3.3 Other decreases		
4. Ending balance	**547**	**470**

13.4 Deferred tax liabilities: annual changes (through the income statement)
€46,504 thousand

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
1. Beginning balance	**41,591**	**10,987**
2. Increases		
2.1 Deferred tax liabilities recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	5,200	30,612
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(288)	(8)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**46,504**	**41,591**

13.5 Deferred tax assets: annual changes (through equity)
€371 thousand

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
1. Beginning balance	**352**	
2. Increases		
2.1 Deferred tax assets recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	31	352
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax assets derecognized during the year		
a) reversals	(13)	
b) writedowns of non-recoverable items		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**371**	**352**

13.6 Deferred tax liabilities: annual changes (through equity)
€275 thousand

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
1. Beginning balance	**154**	**232**
2. Increases		
2.1 Deferred tax liabilities recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies		
c) other	238	118
2.2 New taxes or tax rate increases		
2.3 Other increases		
3. Decreases		
3.1 Deferred tax liabilities derecognized during the year		
a) reversals	(118)	(196)
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**275**	**154**

Section 15 - Other assets - Item 150

€4,290 thousand

15.1 Other assets: breakdown

(in € thousands)

Details	Total 12.31.2015	Total 12.31.2014
Security deposits	3	15
Other receivables	3,247	2,516
Accrued income and prepaid expenses	1,040	858
Total	**4,290**	**3,389**

Other receivables mainly refer to non-trade receivables from sundry debtors and items to be cleared.
With regard to 2014, prepaid expenses were reclassified to the appropriate accounts for a total of €15,377 thousand.

LIABILITIES AND EQUITY

Section 1 - Due to banks - Item 10

€688,076 thousand

1.1 Due to banks: breakdown by type

(in € thousands)

Types of transactions/Amounts	Total 12.31.2015	Total 12.31.2014
1. Due to Central Banks	206,000	420,000
2. Due to banks		
2.1 Current accounts and demand deposits		5
2.2 Time deposits	482,076	548,256
2.3 Loans		
2.3.1 Repos		
2.3.2 Other		
2.4 Liabilities in respect of commitments to repurchase treasury shares		
2.5 Other liabilities		
Total	**688,076**	**968,261**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	**688,076**	**968,261**
Total *fair value*	**688,076**	**968,261**

"Due to Central Banks", amounting to €206 million, refers to deposits with the Central Bank for Banca Farmafactoring's participation in the auction, as part of the ECB monetary policy operations. The operation 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 €482.1 million.

With regard to 2014, accrued income and prepaid expenses were reclassified to the appropriate accounts which, for "Due to banks", produced an impact of €2,244 thousand.

BANCA FARMAFACTORING

Section 2 - Due to customers - Item 20

€1,877,502 thousand

2.1 Due to customers: breakdown by type

(in € thousands)

Types of transactions/Amounts	Total 12.31.2015	Total 12.31.2014
1. Current accounts and demand deposits	27,031	10,567
2. Time deposits	395,354	215,691
3. Loans		
3.1 Repos	920,471	595,034
3.2 Other loans	267,014	231,946
4. Liabilities in respect of commitments to repurchase treasury shares		
5. Other liabilities	267,633	262,470
Total	**1,877,502**	**1,315,709**
Fair value - Level 1		
Fair value - Level 2		
Fair value - Level 3	**1,877,502**	**1,315,709**
Total *fair value*	**1,877,502**	**1,315,709**

"Due to customers" includes the exposure for the *online* deposit accounts, offered in Italy and Spain, for a total of €416.7 million, between times deposits and demand deposits.

The repos of approximately €920.5 million are with Cassa di Compensazione e Garanzia and were put into place to refinance the securities portfolio of the Bank.

"Other loans" relate to liabilities with financial entities and refer to:
• the position of €155.6 million arising from the existing collaboration with International Factor Italia S.p.A. - IFITALIA;
• the position of €111.4 million arising from the existing collaboration with Unicredit Factoring S.p.A..

"Other liabilities" principally refer to collections of receivables under management due to assignors.

With regard to 2014, accrued income and prepaid expenses were reclassified to the appropriate accounts which, for "Due to customers", produced an impact of €10,382 thousand.

Section 3 - Securities issued - Item 30

€302,962 thousand

3.1 Securities issued: breakdown by type

(in € thousands)

Types of securities/ Amounts	Total 12.31.2015				Total 12.31.2014			
	Carrying amount	*Fair value*			Carrying amount	*Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds								
1.1 structured								
1.2 other	302,962	302,277			301,912	299,175		
2. Other securities								
2.1 structured								
2.2 other								
Total	**302,962**	**302,277**			**301,912**	**299,175**		

In June 2014 Banca Farmafactoring successfully concluded its first *Senior Unsecured* bond issue. The bonds, listed on the Dublin Stock Exchange, 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, 2015, the value, including prepaid expenses relating to the contractual commissions, is about €303 million.

With regard to 2014, accrued income and prepaid expenses were reclassified to the appropriate accounts which, for "Securities issued", produced an impact of €1,224 thousand.

Section 4 - Financial liabilities held for trading - Item 40

€0 thousand

4.1 Financial liabilities held for trading: breakdown by type

(in € thousands)

Types of transactions/Amounts	Total 12.31.2015					Total 12.31.2014				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
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										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives						30,000		46		46
1.1 Trading						30,000		46		46
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										
Total B						**30,000**		**46**		**46**
Total (A+B)						**30,000**		**46**		**46**

Key:
FV = fair value
FV* = fair value calculated excluding value adjustments due to the change in the credit rating of the issuer since the date of issue.
NA = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

At December 31, 2014 the liabilities connected to the *fair value* of financial derivatives held for trading amounted to €46 thousand, and the notional amount of reference was €30 million.
Such amounts referred to financial derivatives issued by banks.
At December 31, 2015 there are no financial liabilities held for trading.

Section 6 - Hedging derivatives - Item 60
€0 thousand

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

(in € thousands)

	Fair value at 12.31.2015			NA 12.31.2015	*Fair value* at 12.31.2014			NA 12.31.2014
	L1	L2	L3		L1	L2	L3	
A. Financial derivatives								
1) *Fair value*								
2) Cash flows						47		55,000
3) Net investment in foreign subsidiaries								
B. Credit derivatives								
1) *Fair value*								
2) Cash flows								
Total						**47**		**55,000**

Key:
NA = nominal or notional value
L1 = Level 1
L2 = Level 2
L3 = Level 3

At December 31, 2014 the cash flows connected to financial hedging derivatives amounted to €47 thousand, and the nominal amount of reference was €55 million.
At December 31, 2015 there are no hedging derivatives.

Section 8 - Tax liabilities - Item 80

See Section 13 of Assets - Tax assets and liabilities.

Section 10 – Other liabilities – Item 100

€41,558 thousand

10.1 Other liabilities: breakdown

(in € thousands)

Details	Total 12.31.2015	Total 12.31.2014
Payables to suppliers	1,406	1,900
Invoices to be received	7,113	5,702
Payables to the tax authorities	2,782	640
Payables to social security agencies	505	422
Payables to employees	3,154	2,860
Collections pending allocation	23,494	9,811
Other payables	3,090	7,995
Accrued liabilities and deferred income	15	101
Total	**41,558**	**29,432**

"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, 2015 but still outstanding since they were not cleared and recorded by that date.

"Other payables" mostly include portions of collections to be transferred, stamp taxes to be paid, payables to directors and other items to be cleared.

With regard to 2014, accrued income and prepaid expenses were reclassified to the appropriate accounts which, for "Other liabilities", produced an impact of €1,187 thousand.

Section 11 – Employee severance indemnities – Item 110
€883 thousand

11.1 Employee severance indemnities: annual changes

(in € thousands)

	Total 12.31.2015	Total 12.31.2014
A. Beginning balance	**717**	**705**
B. Increases		
B.1 Provision for the year	322	274
B.2 Other increases		
C. Decreases		
C.1 Payments made	(13)	
C.2 Other decreases	(143)	(262)
D. Ending balance	**883**	**717**
Total	**883**	**717**

11.2 Other information

The liability recognized in the financial statements at December 31, 2015 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, 2015, reference should be made to the following point 12.3.

Section 12 - Provisions for risks and charges - Item 120
€5,036 thousand

12.1 Net provisions for risks and charges: breakdown

(in € thousands)

Items/Amounts	Total 12.31.2015	Total 12.31.2014
1. Pension funds and similar obligations	4,671	3,795
2. Other provisions		
2.1 Legal disputes		
2.2 Personnel expenses		
2.3 Other	365	363
Total	**5,036**	**4,158**

12.2 Provisions for risks and charges: annual changes

(in € thousands)

	Pension funds	Other provisions	Total
A. Beginning balance	**3,795**	**363**	**4,158**
B. Increases			
B.1 Provision for the year	939	2	941
B.2 Change due to passing of time			
B.3 Variation due to change in the discount rate			
B.4 Other changes			
C. Decreases			
C.1 Use during the year	(63)		(63)
C.2 Variation due to change in the discount rate			
C.3 Other changes			
D. Ending balance	**4,671**	**365**	**5,036**

12.3 Defined benefit pension funds

The provision refers to:
- for €334 thousand, the non-competition agreement signed by the executives of the Bank;
- for €605 thousand, the deferral of 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, upon the Bank achieving 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.

The technical demographic bases used are reported below.

- Non-competition Agreement

The annual discount rate used to determine the present value of the obligation was deduced, consistently with paragraph 83 of IAS 19, from the Iboxx Corporate AA Index with a 10+ duration, reported at December 31, 2015 and equal to 2.03%. To this end a decision was made to choose the yield with a duration comparable to the "*duration*" of those in the valuation.

Death	RG48 mortality tables published by the State General Accounting Office
Retirement	100% at reaching AGO (Ass. Gen. Oblig.) requisites
Frequency of voluntary resignation	3.00%
Claw back frequency	3.00%
Frequency of withdrawal (where provided)	3.00%
Frequency of revocation of mandate to Chief Executive Office	0.00%
Increase in annual compensation of executives	3.40%
Increase in annual compensation of supervisors	2.40%
Contribution rate	27.40%

• Deferred bonus:

Discount rate

The financial basis used to calculate the present value of the obligations was determined, consistently with paragraph 83 of IAS 19, by reference to the IBoxx Eurozone Corporate AA Index (in line with the duration of the plan in question of 1-3 years). The discount rate was established at 0.24%.

Mortality and disability

To estimate the phenomenon of mortality, the RG48 survival table used by the State General Accounting Office to estimate the retirement expenses of the Italian population was utilized. For the probability of total and permanent disability the tables adopted in the INPS model for the 2010 forecasts were utilized.

Frequency of resignations and dismissals

Equal to 3%.

Section 14 - Equity - Items 130, 150, 160, 170, 180, 190 and 200
€321,572 thousand

14.1 "Share capital" and "Treasury shares": breakdown
€130,900 thousand

At December 31, 2015 share capital consists of 1,700,000 ordinary shares of nominal value €77.00 each, for a total of €130,900 thousand.

14.2 Share capital – Number of shares: annual changes

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

14.4 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.

(in € thousands)

	12.31.2015	Possibility of utilization *(a)*	Amount available	Summary of utilization in the last three years	
				For absorption of losses	For other reasons
Share capital	**130,900**				
Reserves	**126,829**				
- Legal reserve	26,180	*B*			
- Extraordinary reserve	89	*A,B,C*	89		
- Retained earnings	100,560	*A,B,C*	100,560		(*) 20,400
Valuation reserves	**4,184**				
- Available-for-sale securities	481	*A,B,C*	481		
- Other	3,703	*A,B,C*	3,703		
Total share capital and reserves	**261,913**		**104,833**		**20,400**

(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 €110,500 thousand in 2011 to €130,900 thousand in 2014.

Changes in reserves are as follows:

(in € thousands)

	Legal reserve	Retained earnings	Other reserves: Extraordinary	Total
A. Beginning balance	**21,489**	**31,499**	**89**	**53,077**
B. Increases				
B.1 Appropriation of profit	4,691	69,061		73,752
B.2 Other changes				
C. Decreases				
C.1 Use for the year				
- absorption of losses				
- distribution				
- transfer to share capital				
C.2 Other changes				
D. Ending balance	**26,180**	**100,560**	**89**	**126,829**

Legal reserve

The increase in the legal reserve of €4,691 thousand compared to the prior year is due to the appropriation of the profit for the year ended December 31, 2014 approved by the ordinary shareholders' meeting of Banca Farmafactoring held on March 25, 2015.

Retained earnings

The increase in retained earnings of €69,061 thousand compared to the prior year is due to the appropriation of the profit for the year ended December 31, 2014 approved by the ordinary shareholders' meeting of Banca Farmafactoring held on March 25, 2015.

Valuation reserves

"Valuation reserves" amount to €4,184 thousand at December 31, 2015.

The increase of €149 thousand compared to December 31, 2014 is mainly due to the increase in the reserve for available-for-sale financial assets.

Other information

1. Guarantees given and commitments

(in € thousands)

Transactions	Amount 12.31.2015	Amount 12.31.2014
1) Financial guarantees given to		22
a) Banks		*22*
b) Customers		
2) Commercial guarantees given to	195	
a) Banks		
b) Customers	*195*	
3) Irrevocable commitments to disburse funds	117,461	68,280
a) Banks		
i) usage certain		
ii) usage uncertain		
b) Customers	117,461	68,280
i) usage certain		
ii) usage uncertain	*117,461*	*68,280*
4) Underlying commitments for credit derivatives: sale of protection		
5) Assets used to guarantee obligations of third parties		
6) Other commitments		
Total	**117,656**	**68,302**

The commercial guarantee refers to the guarantee given to the subsidiary Farmafactoring España in support of legal actions undertaken against account debtors.

Commitments for usage uncertain of €117,461 refer to commitments with customers to purchase receivables that have already been identified.

2. Assets used to guarantee own liabilities and commitments

(in € thousands)

Portfolios	Amount 12.31.2015	Amount 12.31.2014
1. Financial assets held for trading		
2. Financial assets at *fair value* through profit or loss		
3. Available-for-sale financial assets	326,029	289,717
4. Held-to-maturity financial assets	822,350	744,262
5. Due from banks		
6. Due from customers	651,515	495,260
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.

"Due from customers" refers, for €233,484 thousand, to receivables sold and not derecognized as part of the securitization transaction outstanding and, for a total of €418,031 thousand, receivables used as collateral for the loan transactions with Ifitalia and Unicredit Factoring.

4. Asset management and trading on behalf of others

(in € thousands)

Type of services	Amount
1. Management and trading on behalf of customers	
a) Purchases	
1. settled	
2. unsettled	
b) Sales	
1. settled	
2. unsettled	
2. Portfolio management	
a) individual	
b) collective	
3. Custody and administration of securities	**1,218,500**
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	1,218,500
4. Other	

The total refers to the nominal amount of owned securities classified in the available-for-sale and held-to-maturity portfolios.

Part C - Income Statement

Section 1 - Interest - Items 10 and 20

1.1 Interest and similar income: breakdown

€149,920 thousand

(in € thousands)

Items/Type	Debt securities	Loans	Other transactions	Total 12.31.2015	Total 12.31.2014
1. Financial assets held for trading					
2. Available-for-sale financial assets	1,322			**1,322**	**941**
3. Held-to-maturity financial assets	4,526			**4,526**	**3,118**
4. Due from banks		127		**127**	**639**
5. Due from customers		140,943		**140,943**	**242,259**
6. Financial assets at *fair value* through profit or loss					
7. Hedging derivatives					
8. Other assets			2	**2**	
Total	**5,848**	**141,070**	**2**	**146,920**	**246,958**

1.3 Interest and similar income: other information

The interest income on "Available-for-sale financial assets" amounting to €1,322 thousand and on "Held-to-maturity financial assets" totaling €4,526 thousand refers to the government securities purchased by Banca Farmafactoring 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 yields deriving from the expected cash flows.

Interest income "Due from banks - Loans" refers to the temporary cash on hand in the Group's current accounts with the banking system.

Interest income on "Due from customers - Loans" totals €140,943 thousand and consists largely of the *maturity* commissions charged to assignors for the purchase of non-recourse receivables and the interest on late payments referring to the current year, relating to the Banking Group.

In the prior year "Interest and similar income" was influenced by the recognition of higher interest on late payments of €111,291 thousand arising from the change in the method of estimating such interest. In order to render the current year's figures comparable with those of the prior year, the figures for 2014 are also presented pro-forma, as shown in the Report on Operations, that is, they are presented as if the change in method used to estimate the interest on late payments, which took place in 2014, had been applied since 2011. The comparison shows that the interest income in 2015 would be approximately €0.5 million higher than the pro-forma interest income for 2014.

As regards the calculation of amortized cost, including interest on late payments recognized on the accrual basis, the Bank integrated the time series of data utilized in the prior year, regarding the percentages and collection times of interest on late payments, with the collections recorded in 2015. The outcome of this integration has confirmed, on the basis of the times series analysis, the recoverability rate of 40% for interest on late payments and 1800 days for collection times.
These recovery percentages have not been applied to the interest on late payments of non-performing positions, which have been entirely written off.

1.4 Interest and similar expenses: breakdown
€29,098 thousand

(in € thousands)

Items/Type	Payables	Securities issued	Other transactions	Total 12.31.2015	Total 12.31.2014
1. Due to Central Banks	114			**114**	**223**
2. Due to banks	7,574			**7,574**	**24,398**
3. Due to customers	8,570		3,479	**12,049**	**14,716**
4. Securities issued		9,300		**9,300**	**5,110**
5. Financial liabilities held for trading			60	**60**	**461**
6. Financial liabilities at *fair value* through profit or loss					
7. Other liabilities provisions					**35**
8. Hedging derivatives					
Total	**16,259**	**9,300**	**3,539**	**29,098**	**44,943**

Interest expenses referring to amounts "Due to banks - Payables" relate to loans received from the banking system.

Interest expenses referring to amounts "Due to customers – Payables" mainly refer, for a total of €8,043 thousand, to interest expenses on the Bank's *online* deposit accounts: in particular, €7,962 thousand for Conto Facto, offered in Italy, and €81 thousand for *Cuenta Facto*, launched in August 2015 by Banca Farmafactoring's branch in Spain.
The item also includes interest expenses of €1,075 thousand relating to loans received from other factoring companies.
Interest expenses referring to "Due to customers – Other transactions" include the 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 €15.8 million compared to 2014. 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.

BANCA FARMAFACTORING

Section 2 - Fees and commissions - Items 40 and 50

2.1 Fee and commission income: breakdown
€8,321 thousand

(in € thousands)

Types of services /Amounts	Total 12.31.2015	Total 12.31.2014
a) guarantees given		
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	8,321	9,303
e) securitization servicing		
f) factoring		
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services		
Total	**8,321**	**9,303**

The balance mainly refers to commissions on the mandates for the management and collection of receivables.

2.3 Fee and commission expenses: breakdown
€356 thousand

(in € thousands)

Services/Amounts	Total 12.31.2015	Total 12.31.2014
a) guarantees received		
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	**356**	**540**
- bank account charges and fees	96	163
- commissions and fees for bank current account funds availability	22	99
- other banking expenses	47	198
- other	190	80
Total	**356**	**540**

The balance primarily refers to expenses on existing banking relationships.

Section 4 - Gains/losses on trading - Item 80

4.1 Gains/losses on trading: breakdown by type
€46 thousand

(in € thousands)

Items/Income components	Gains (A)	Gains on trading (B)	Losses (C)	Losses on trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading					
1.1 Debt securities					
1.2 Equity instruments					
1.3 Units in investment funds					
1.4 Loans					
1.5 Other assets					
2. Financial liabilities held for trading					
2.1 Debt securities					
2.2 Liabilities					
2.3 Other liabilities					
3. Financial assets and liabilities: exchange differences					
4. Derivatives		**46**			**46**
4.1 Financial derivatives:		46			46
- on debt securities and interest rates		46			46
- on equity instruments and share indexes					
- on currency and gold					
- other					
4.2 Credit derivatives					
Total		**46**			**46**

Fair value changes in derivatives

(in € thousands)

	Carrying amount	Change
Financial assets held for trading		
Amount at December 31, 2014	0	
Amount at December 31, 2015	0	0
Financial liabilities held for trading		
Amount at December 31, 2014	46	
Amount at December 31, 2015	0	46
Gains/losses on trading		**46**

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

5.1 Fair value adjustments in hedge accounting: breakdown

€23 thousand

(in € thousands)

Components/Amounts	Total 12.31.2015	Total 12.31.2014
A. Gains on:		
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		
Total gains on hedging activities (A)		
B. Losses on:		
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	23	7
B.5 Assets and liabilities denominated in currency		
Total losses on hedging activities (B)	**23**	**7**
C. Net fair value adjustments in hedge accounting (A - B)	**(23)**	**(7)**

Section 6 - Gains/losses on disposals/repurchases - Item 100

€872 thousand

6.1 Gains/losses on disposals/repurchases: breakdown

(in € thousands)

Item/Components	Total 12.31.2015			Total 12.31.2014		
	Gains	Losses	Net	Gains	Losses	Net
Financial assets						
1. Due from banks						
2. Due from customers						
3. Available-for-sale financial assets						
3.1 Debt securities	872		872	953		953
3.2 Equity instruments						
3.3 Units in investment funds						
3.4 Loans						
4. Held-to-maturity financial assets						
Total assets	**872**		**872**	**953**		**953**
Financial liabilities						
1. Due to banks						
2. Due to customers						
3. Securities issued						
Total liabilities						

The amount refers to the gain on the sale of government securities classified in the available-for-sale portfolio.

Section 8 - Impairment losses/reversals - Item 130

€1,126 thousand

8.1 Impairment losses/reversals on receivables and loans: breakdown

(in € thousands)

Transactions/ Components	Impairment losses			Impairment reversals				Total 12.31.2015	Total 12.31.2014
	Specific			Specific		Portfolio			
	Writeoffs	Other	Portfolio	A	B	A	B		
A. Due from banks									
- Loans									
- Debt securities									
B. Due from customers:									
Impaired receivables purchased									
- Loans									
- Debt securities									
Other receivables									
- Loans	(75)	(156)	(1,142)		248			**(1,126)**	**43**
- Debt securities									
C. Total	**(75)**	**(156)**	**(1,142)**		**248**			**(1,126)**	**43**

Key:
A = from interest
B = other reversals

Section 9 - Administrative expenses - Item 150

€43,444 thousand

9.1 Personnel costs: breakdown

€17,513 thousand

(in € thousands)

Types of expenses/Sectors	Total 12.31.2015	Total 12.31.2014
1) Employees		
a) wages and salaries	10,898	8,665
b) social security charges	3,031	2,371
c) employee severance indemnity charges		
d) pension charges		
e) provision for employee severance indemnity	322	274
f) provision for pension and similar obligations:		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds:		
- defined contribution	157	98
- defined benefit		
h) costs relating to share-based payments		
i) other benefits to employees	1,074	816
2) Other employees in service	304	75
3) Directors and statutory auditors	1,726	1,797
4) Early retirement costs		
5) Recovery of expenses for employees on secondment to other companies		
6) Reimbursement of expenses for employees on secondment with the company		
Total	**17,513**	**14,096**

9.2 Average number of employees by category

Employees

(number)

Category	Average number 2015	Average number 2014
Executives	11	8
Supervisors	49	41
Remaining staff	101	76
Total	**161**	**125**

Other staff
Traineeships: 2

9.4 Other benefits to employees

The amount of €1,074 thousand refers principally to expenses incurred for training, insurance for employees, meal tickets and donations to employees.

9.5 Other administrative expenses: breakdown

€25,931 thousand

(in € thousands)

Details	Total 12.31.2015	Total 12.31.2014
Legal fees	2,799	4,059
Data processing costs	2,061	1,498
External receivables management services	1,112	966
Compensation to Supervisory Body	51	129
Legal fees for receivables under management	815	1,026
Notary fees	573	384
Notary fees to be recovered	188	67
Corporate hospitality and donations	840	766
Maintenance expenses	801	728
Non-deductible VAT	2,994	2,083
Other indirect taxes and duties	868	226
Consulting fees	5,977	3,905
Office operating expenses	1,239	845
Resolution Fund and FITD	1,603	0
Other expenses	4,010	3,099
Total	**25,931**	**19,781**

Other administrative expenses include approximately €3.5 million in connection with the IPO process, the change in the shareholder of reference and other non-recurring transactions.

The amount paid into the Resolution Fund for ordinary contributions, €367 thousand, and special contributions, €1,101 thousand, and into the Fondo Interbancario di Tutela dei Depositi, €134 thousand, are shown separately and total €1,603 thousand. These amounts have been recognized in other administrative expenses, as indicated in the Bank of Italy note of January 19, 2016, "Contributions to Resolution Funds: treatment in financial statements and in regulatory reporting".

Other administrative expenses also include legal fees for receivables under management of €815 thousand and notary fees for €188 thousand incurred on behalf of the assignor companies, which were fully recovered and included in other operating income.

Details of costs for outsourced services included in "Other administrative expenses" in 2015 mainly include the following:

(in € thousands)

Details	Total 12.31.2015
Internal audit fees (external firm)	42
Data processing fees (external firms)	2,140
Collection fees (external firms)	1,014

Section 10 - Net provisions for risks and charges - Item 160

€878 thousand

10.1 Net provisions for risks and charges: breakdown

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

(in € thousands)

Details	Total 12.31.2015	Total 12.31.2014
Provision for pension and similar obligations	876	1,262
Other provisions	2	-
Total	**878**	**1,262**

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

Section 11 - Net adjustments to/writebacks on property, plant and equipment - Item 170

11.1 Net adjustments to/writebacks on property, plant and equipment: breakdown
€1,092 thousand

(in € thousands)

Assets/ 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	1,092			1,092
- Used In The Business	1,092			1,092
- Held For Investment				
A.2 Leased assets acquired under finance leases				
- Used In The Business				
- Held For Investment				
Total	**1,092**			**1,092**

Section 12 - Net adjustments to/writebacks on intangible assets - Item 180

12.1 Net adjustments to/writebacks on intangible assets: breakdown
€1,022 thousand

(in € thousands)

Assets/Net adjustments/ writebacks	Depreciation (a)	Impairment losses (b)	Impairment reversals (c)	**Net result (a + b - c)**
A. Intangible assets				
A.1 Owned assets	1,022			1,022
- generated internally				
- other	1,022			1,022
A.2 Leased assets acquired under finance leases				
Total	**1,022**			**1,022**

Section 13 - Other operating income/expenses - Item 190

€4,594 thousand

13.1 Other operating expenses: breakdown

(in € thousands)

Details	Total 12.31.2015	Total 12.31.2014
1. Operating expenses		
- Rounding and rebates	(65)	(69)
- Expenses for guarantee funds	-	(13)
Total	**(65)**	**(82)**

13.2 Other operating income: breakdown

(in € thousands)

Details	Total 12.31.2015	Total 12.31.2014
1. Operating income		
- Recovery of legal fees for purchases of non-recourse receivables	1,257	1,771
- Recovery of legal fees for management of receivables	746	1,026
- Receivables realized at other than face value	-	3,483
- Prior year items	903	343
- Recovery of notary expenses from assignors	188	67
- Royalties from Farmafactoring España S.A.	441	533
- Other income	1,124	432
Total	**4,659**	**7,655**

Section 18 - Income taxes on profit from continuing operations - Item 260

€24,054 thousand

18.1 Income taxes on profit from continuing operations: breakdown

(in € thousands)

Components/Sector	Total 12.31.2015	Total 12.31.2014
1. Current income taxes	19,504	30,710
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	(362)	(537)
5. Changes to deferred tax liabilities	4,912	30,604
6. Income taxes for the year	**24,054**	**60,777**

18.2 Reconciliation of theoretical tax and effective tax expense

(in € thousands)

Details	IRES	IRAP
Taxable profit used for purposes of tax calculations	83,714	87,776
Theoretical tax expense 27.5% IRES – 5.57% IRAP	**23,021**	**4,889**
Non-deductible permanent differences	(8,920)	1,202
Deductible IRAP quota	(1,190)	
Temporary differences taxable in future years	(18,884)	
Temporary differences deductible in future years	1,943	122
Reversal of temporary differences referring to future years	(651)	(44)
Taxable profit	**56,011**	**89,057**
Current income taxes for the year: 27.5% IRES – 5.57% IRAP	**14,688**	**4,816**

Part D - Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

(in euros)

	Item	Before tax effect	Tax effect	After tax effect
10.	**Profit for the year**	X	X	**59,659,457**
	Other comprehensive income that will not be reclassified subsequently to the income statement			
20.	Property, plant and equipment			
30.	Intangible assets			
40.	Defined benefit plans	(167,037)	45,935	(121,102)
50.	Non-currents assets classified as held for sale			
60.	Portion of valuation reserves from investments accounted for using the equity method			
	Other comprehensive income that will be reclassified subsequently to the income statement			
70.	**Hedges of net investments in foreign subsidiaries:**			
	a) *fair value* changes			
	b) reclassification to income statement			
	c) other changes			
80.	**Exchange differences:**			
	a) changes in value			
	b) reclassification to income statement			
	c) other changes			
90.	**Cash flow hedges:**			
	a) *fair value* changes	39,846	(13,177)	26,669
	b) reclassification to income statement			
	c) other changes			
100.	**Available-for-sale financial assets:**			
	a) *fair value* changes	363,188	(120,106)	243,082
	b) reclassification to income statement			
	- impairment losses			
	- gains/losses on disposal			
	c) other changes			
110.	**Non-currents assets classified as held for sale:**			
	a) *fair value* changes			
	b) reclassification to income statement			
	c) other changes			
120.	**Portion of valuation reserves from investments accounted for using the equity method:**			
	a) *fair value* changes			
	b) reclassification to income statement			
	- impairment losses			
	- gains/losses on disposal			
	c) other changes			
130.	**Total Other comprehensive income**	**235,997**	**(87,348)**	**148,649**
140.	**Comprehensive income (Items 10+130)**	**235,997**	**(87,348)**	**59,808,106**

Part E - Information on Risks and related Risk Management Policies

The Banca Farmafactoring 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 by the Group.
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 Bank 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 Banking Group, define the governance and risk 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 Group level, the Risk Management Function cooperates in the process to draw up and implement 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 whole system for the management of risks and the overall framework inherent to the assumption of risks, that is, the Risk Appetite Framework;
• 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 - CREDIT RISK

Qualitative information

1. General aspects

Factoring activities, disciplined by the Italian Civil Code (Book IV, Title 1 – 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 arrangements is the involvement of three different parties:
• Factor (assignee)
• Client (assignor)
• Debtor (of the account)

2. Credit risk management policies

2.1 Organization
In view of the above considerations, the assessment of a factoring arrangement 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 account 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 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 receivables 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 internal regulation for the monitoring of creditworthiness, which describes the credit control process on the debtor and is an integral part of the of the "Credit Regulation".
The credit risk is thus adequately controlled at various levels, within the various operational processes.

2.2 Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the capital adequacy of the Bank in relation to the risks connected with lending.
With this in mind, the Bank 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 Banca Farmafactoring has 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 from the Public Administration fall in the Credit Quality Class of 2, with a risk weight equal to 50%.
The exposures of the Bank are almost completely composed of receivables due from counterparties belonging to the Public Administration.

Banca Farmafactoring constantly maintains, as a capital requirement covering 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.

On the basis of the above methodology, the capital requirement for credit risk at December 31, 2015 is equal to €72,467 thousand.

Moreover, as previously mentioned, the Bank has a "Credit Regulation" which 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 the "receivables management only" service, the credit risk is considerably reduced because it is limited to the Bank's exposure to 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 Circulars 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 eligible capital, as defined in Regulation 575 of 2013 (sum of Tier 1 Capital and Tier 2 Capital equal to or less than one-third of Tier 1 Capital). For Banca Farmafactoring, the eligible capital corresponds to own funds;
- for banking groups and banks not belonging to a banking group each risk-weighted position must be within the limit of 25% of eligible capital.

In view of the fact that Banca Farmafactoring has an exposure that is almost completely composed of receivables due from the Public Administration, the portfolio risk is to be considered limited.

Furthermore, the Bank files a monthly report with the Central Credit Register (Bank of Italy Circular 139 of February 11, 1991, and subsequent updates, "*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
The Bank performs an impairment test 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 have been classified in the performing category.

Performing receivables
The measurement of *performing receivables* includes those receivables from customers which, although past due more than 90 days, show no objective indication of loss 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-Local Health Service Agencies/AOs-Hospital Companies), corresponding to the credit rating assigned by the major rating agencies to the particular Region to which the debtors belong. This rating is then applied to exposures that are not classified as non-performing Exposures At Default (EAD).

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, 2015, the impairment test indicated an impairment loss of about €2.9 million, higher by €0.9 million compared to 2014 owing primarily to the increase in the *outstanding* receivables of the Bank.

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 consist of non-performing exposures, net of individual impairment losses, amounting to €2,507 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, and subsequent updates, "*The Financial Statements of Banks: layout and preparation*", the Bank has divided its credits between "performing" and "impaired".

Impaired exposures correspond to the sum of:
- Past due exposures, for a net amount of €43,234 thousand;
- Unlikely to pay, not applicable;
- Non-performing exposures, for a net amount of €2,507 thousand;

whose definitions are established by existing regulatory reporting and contained in Bank of Italy Circular 272 of July 30, 2008, and subsequent updates, "*Matrix Accounting*".

In particular, the new category of "unlikely to pay", which groups the old definitions of doubtful and restructured receivables, was introduced by the 7th update of Bank of Italy Circular 272 of January 20, 2015.

Past due exposures
These are exposures to central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which, at December 31, 2015, are past due more than 90 days.
In particular, exposures to 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, 2015, total net past due receivables amount to €43,234 thousand, compared to €9,779 thousand at the end of 2014, of which €9,873 thousand is due from the entities of the Public Administration compared to €6,669 thousand at the end of 2014.

Unlikely to pay
The definition of this type of exposure represents the Bank's assessment that, without recourse to actions such as the realization of collateral, it is unlikely that the debtor will pay (principal and/or interest) its credit obligations in full. This assessment is conducted regardless of the existence of any past due and unpaid amounts (or installments).

Therefore it is not necessary to wait for the explicit symptom of the event (e.g., failure to make payment) where elements exist that imply the risk of non-payment by the debtor. Exposures to retail parties can be classified in the "unlikely to pay" category at the level of individual transaction, provided that the bank assesses that no conditions exist for the classification in this category of the total exposure to the given debtor.

At December 31, 2015 the Group does not have any positions classified as "unlikely to pay".

Non-performing exposures
These refer to exposures to parties that are in a state of insolvency or in basically similar situations, regardless of any estimates of loss formulated by the Bank.
At December 31, 2015 the total of non-performing receivables, net of writedowns due to estimated impairment losses, amounts to €2,507 thousand, a decrease from €2,936 thousand in the prior year.

Of this amount, €0.9 million is due from Fondazione Centro San Raffaele del Monte Tabor in liquidation and in a composition agreement with creditors.

To this end, in July 2015 a third distribution was received of €1.5 million equal to approximately 6% of the liability, bringing the residual exposure from €2.4 million to €0.9 million. There was no effect on the income statement since the principal amount had not been written down.
With regard to the percentages of recovery established in the composition agreement, and as a result of the recognition of receivables for interest on late payments, the principal was not written down.

The other gross non-performing positions amount to approximately €3.3 million, of which about €1.6 million was completely written off against the provision account and the net book value is now zero. The remaining positions of about €1.6 million have not been written down since they refer to positions guaranteed by sureties and to exposures relating to local entities in financial difficulties (of which €743 thousand was non-performing when purchased and €312 thousand was purchased performing and later became non-performing), for which no provision for loss was made as it is expected that at the end of the period of financial difficulty 100% of the receivables will be recovered. The provision account for interest on late payments on non-performing positions amounts to €13.6 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 non-performing exposures, the assessment of past due exposures is made at the level of portfolio since such positions show no objective indication of loss at an individual level.

Quantitative information

A. Credit quality

A.1 Impaired and not impaired credit exposures: amounts, impairment losses, changes, business and geographical distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (carrying amount)

(in € thousands)

Portfolios/Quality	Non-performing	Unlikely to pay	Past due impaired	Other impaired exposures	Not impaired exposures	Total
1. Available-for-sale financial assets					429,414	**429,414**
2. Held-to-maturity financial assets					822,859	**822,859**
3. Due from banks					55,393	**55,393**
4. Due from customers	2,507		43,234	375,052	1,522,298	**1,943,091**
5. Financial assets at *fair value* through profit or loss						
6. Financial assets held for sale						
Total 2015	**2,507**		**43,234**	**375,052**	**2,829,963**	**3,250,756**
Total 2014	**2,936**	**62**	**9,779**	**248,375**	**2,686,761**	**2,947,914**

Due from customers includes past due not impaired exposures, in accordance with the provisions of Bank of Italy Circular 272 of July 30, 2008, and subsequent updates, "*Matrix Accounts*", for €375,052 thousand.
All of the purchases of non-recourse receivables refer to factoring transactions pursuant to Law 52/91.

A.1.2 Distribution of credit exposures by portfolio and credit quality (gross and net amounts)

(in € thousands)

Portfolio/Quality	Impaired assets			Not impaired assets			Total (net exposure)
	Gross exposure	Specific impairment losses	Net exposure	Gross exposure	Specific impairment losses	Net exposure	
1. Available-for-sale financial assets				429,414		429,414	429,414
2. Held-to-maturity financial assets				822,859		822,859	822,859
3. Due from banks				55,393		55,393	55,393
4. Due from customers	47,536	1,795	45,741	1,901,100	3,750	1,897,350	1,943,091
5. Financial assets at fair value through profit or loss							
6. Financial assets held for sale							
Total 2015	**47,536**	**1,795**	**45,741**	**3,208,765**	**3,750**	**3,205,015**	**3,250,756**
Total 2014	**14,676**	**1,899**	**12,778**	**2,937,805**	**2,668**	**2,935,136**	**2,947,914**

A.1.3 On- and off-balance sheet credit exposures to banks: gross and net amounts and past due

(in € thousands)

Exposure types/Amounts	Gross exposure					Specific impairment losses	Portfolio impairment losses	Net exposure
	Impaired assets				Not impaired assets			
	Past due less than 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Past due more than 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Non-performing								
- of which: forborne								
b) Unlikely to pay								
- of which: forborne								
c) Past due impaired exposures								
- of which: forborne								
d) Past due not impaired exposures								
- of which: forborne								
e) Not impaired other exposures					55,393			55,393
- of which: forborne								
TOTAL A					55,393			55,393
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired								
b) Not impaired								
TOTAL B								
TOTAL (A+B)					55,393			55,393

A.1.6 On- and off-balance sheet credit exposures to customers: gross and net amounts and past due

(in € thousands)

Exposure types/Amounts	Gross exposure					Specific impairment losses	Portfolio impairment losses	Net exposure
	Impaired assets				Not impaired assets			
	Past due less than 3 months	Past due 3 to 6 months	Past due 6 months to 1 year	Past due more than 1 year				
A. ON-BALANCE SHEET EXPOSURES								
a) Non-performing			228	3,998		1,719		2,507
- of which: forborne								
b) Unlikely to pay								
- of which: forborne								
c) Past due impaired exposures	33,531	2,004	7,010	765		76		43,234
- of which: forborne								
d) Past due not impaired exposures					376,602		1,550	375,052
- of which: forborne								
e) Not impaired other exposures					2,776,771		2,200	2,774,571
- of which: forborne								
TOTAL A	**33,531**	**2,004**	**7,238**	**4,763**	**3,153,373**	**1,795**	**3,750**	**3,195,364**
B. OFF-BALANCE SHEET EXPOSURES								
a) Impaired								
b) Not impaired					117,656			117,656
TOTAL B					**117,656**			**117,656**
TOTAL (A+B)	**33,531**	**2,004**	**7,238**	**4,763**	**3,271,028**	**1,795**	**3,750**	**3,313,019**

A.1.7 On-balance sheet credit exposures to customers: change in gross impaired exposures

(in € thousands)

Source/Categories	Non-performing	Unlikely to pay	Past due impaired
A. Beginning gross exposure	**4,819**	**62**	**9,795**
- of which: receivables sold but not derecognized			
B. Increases	**1,518**		**44,540**
B.1 transfer from performing exposures	1,479		44,502
B.2 transfer from other categories of impaired exposures	30		29
B.3 other increases	9		9
C. Decreases	**2,110**	**62**	**11,025**
C.1 transfer to performing exposures	184	1	1,364
C.2 derecognitions			
C.3 recoveries	1,927	3	9,661
C.4 proceeds on sale			
C.5 losses on sale			
C.6 transfer to other categories of impaired exposures		58	
C.7 other decreases			
D. Ending gross exposure	**4,226**	**0**	**43,310**
- of which: receivables sold but not derecognized	914		3,769

A.1.8 On-balance sheet impaired credit exposures to customers: change in total impairment losses

(in € thousands)

Source/Categories	Non-performing		Unlikely to pay		Past due impaired	
	Total	of which: forborne	Total	of which: forborne	Total	of which: forborne
A. Beginning total impairment losses	**1,883**				**16**	
- of which: receivables sold but not derecognized						
B. Increases	**143**				**77**	
B.1 impairment losses	143				72	
B.2 losses on sale						
B.3 transfer from other categories of impaired exposures						
B.4 other increases					5	
C. Decreases	**307**				**17**	
C.1 impairment reversals					1	
C.2 impairment reversals from recoveries	123				9	
C.3 gains on sale						
C.4 derecognitions						
C.5 transfer to other categories of impaired exposures						
C.6 other decreases	184				7	
D. Ending total impairment losses	**1,719**				**76**	
- of which: receivables sold but not derecognized	18				7	

A.2 Classification of exposures according to external and internal ratings

A.2.1 Distribution of on- and off-balance sheet credit exposures by external rating class

(in € thousands)

Exposures	External rating class						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. On-balance sheet exposures		2,952,861	28,366				269,530	**3,250,757**
B. Derivatives								
B.1 Financial derivatives								
B.2 Credit derivatives								
C. Guarantees given							195	**195**
D. Commitments to disburse funds							117,461	**117,461**
E. Other								
Total		**2,952,861**	**28,366**				**387,186**	**3,368,413**

This table includes, under "On-balance sheet exposures", the following items in the assets of the financial statements:

- item 40 - Available-for-sale financial assets (only debt instruments) - for €429,414 thousand;
- item 50 - Held-to-maturity financial assets - for €822,859 thousand;
- item 60 - Due from banks - for €55,393 thousand, equal to the balances on the bank current accounts that Banca Farmafactoring has open at the end of the year;
- item 70 - Due from customers - for €1,943,091 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 Distribution of secured credit exposures by type of security

A.3.2 Secured credit exposures to customers

(in € thousands)

		Collateral (1)					Guarantees (2)								**Total** (1)+(2)
							Credit derivatives				Signature loans				
							Other credit derivatives								
	Net exposures	Building mortgages	Building finance leases	Securities	Other assets	Credit link notes	Governments and Central Banks	Other public entities	Banks	Other entities	Governments and Central Banks	Other public entities	Banks	Other entities	
1. Secured on-balance sheet credit exposures:	**485**												**234**	**251**	**485**
1.1 fully secured	485												234	251	**485**
- of which impaired	234												234		**234**
1.2 partly secured															
- of which impaired															
2. Secured off-balance sheet credit exposures:															
2.1 fully secured															
- of which impaired															
2.2 partly secured															
- of which impaired															

B. Distribution and concentration of credit exposures

B.1 Distribution by segment of on- and off-balance sheet credit exposures to customers (carrying amount)

(in € thousands)

Exposures/Counterparties	Governments			Other public entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposures						
A.1 Non-performing				1,229	451	
- of which: forborne						
A.2 Unlikely to pay						
- of which: forborne						
A.3 Past due impaired exposures	31			9,543	17	
- of which: forborne						
A.4 Not impaired exposures	1,533,844		499	1,391,990		3,225
- of which: forborne						
Total A	**1,533,875**		**499**	**1,402,762**	**468**	**3,225**
B. Off-balance sheet exposures						
B.1 Non-performing						
B.2 Unlikely to pay						
B.3 Other impaired assets						
B.4 Not impaired exposures	7,360			18,861		
Total B	**7,360**			**18,861**		
Total (A+B) 2015	**1,541,235**		**499**	**1,421,623**	**468**	**3,225**
Total (A+B) 2014	**1,441,086**	**9**	**179**	**1,139,332**	**581**	**2,446**

(in € thousands)

Exposures/Counterparties	Financial companies			Insurance companies		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposures						
A.1 Non-performing						
- of which: forborne						
A.2 Unlikely to pay						
- of which: forborne						
A.3 Past due impaired exposures						
- of which: forborne						
A.4 Not impaired exposures	202,182					
- of which: forborne						
Total A	**202,182**					
B. Off-balance sheet exposures						
B.1 Non-performing						
B.2 Unlikely to pay						
B.3 Other impaired assets						
B.4 Not impaired exposures	195					
Total B	**195**					
Total (A+B) 2015	**202,377**					
Total (A+B) 2014	**324,935**		**1**			

(in € thousands)

Exposures/Counterparties	Non-financial companies			Other entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposures						
A.1 Non-performing	234	850		1,044	418	
- of which: forborne						
A.2 Unlikely to pay						
- of which: forborne						
A.3 Past due impaired exposures	33,473	59		186		
- of which: forborne						
A.4 Not impaired exposures	6,491		8	15,116		18
- of which: forborne						
Total A	**40,198**	**909**	**8**	**16,347**	**418**	**18**
B. Off-balance sheet exposures						
B.1 Non-performing						
B.2 Unlikely to pay						
B.3 Other impaired assets						
B.4 Not impaired exposures	91,240					
Total B	**91,240**					
Total (A+B) 2015	**131,438**	**909**	**8**	**16,347**	**418**	**18**
Total (A+B) 2014	**24,751**	**852**	**38**	**11,372**	**457**	**5**

B.2 Distribution by geographical area of on- and off-balance sheet exposures to customers (carrying amount)

(in € thousands)

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses
A. On-balance sheet exposures										
A.1 Non-performing	2,507	1,719								
A.2 Unlikely to pay										
A.3 Past due impaired exposures	43,220	76	14							
A.4 Not impaired exposures	2,947,189	3,700	202,433	50						
Total A	**2,992,916**	**5,496**	**202,447**	**50**						
B. Off-balance sheet exposures										
B.1 Non-performing										
B.2 Unlikely to pay										
B.3 Other impaired assets										
B.4 Not impaired exposures	117,461		195							
Total B	**117,461**		**195**							
Total (A+B) 2015	**3,110,377**	**5,496**	**202,642**	**50**						
Total (A+B) 2014	**2,623,047**	**4,537**	**318,429**	**30**						

(in € thousands)

Exposures/ Geographical areas	Northwest Italy		Northeast Italy		Central Italy		South Italy and Islands	
	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses
A. On-balance sheet exposures								
A.1 Non-performing	914	346	397	58	131	951	1,077	363
A.2 Unlikely to pay								
A.3 Past due impaired exposures	2,300	4	1,047	2	2,705	5	37,168	66
A.4 Not impaired exposures	165,823	272	81,816	138	1,884,331	1,852	815,208	1,438
Total A	**169,036**	**622**	**83,259**	**198**	**1,887,167**	**2,808**	**853,454**	**1,867**
B. Off-balance sheet exposures								
B.1 Non-performing								
B.2 Unlikely to pay								
B.3 Other impaired assets								
B.4 Not impaired exposures	5,539		4,157		102,038		5,726	
Total B	**5,539**		**4,157**		**102,038**		**5,726**	
Total (A+B) 2015	**174,575**	**622**	**87,416**	**198**	**1,989,206**	**2,808**	**859,180**	**1,867**
Total (A+B) 2014	**205,417**	**671**	**108,081**	**159**	**1,645,486**	**2,281**	**664,063**	**1,426**

B.3 Distribution by geographical area of on- and off-balance sheet credit exposures to banks (carrying amount)

(in € thousands)

Exposures/ Geographical areas	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses
A. On-balance sheet exposures										
A.1 Non-performing										
A.2 Unlikely to pay										
A.3 Past due impaired exposures										
A.4 Not impaired exposures	55,393									
Total A	**55,393**									
B. Off-balance sheet exposures										
B.1 Non-performing										
B.2 Unlikely to pay										
B.3 Other impaired assets										
B.4 Not impaired exposures										
Total B										
Total (A+B) 2015	**55,393**									
Total (A+B) 2014	**74,470**									

(in € thousands)

Exposures/ Geographical areas	Northwest Italy		Northeast Italy		Central Italy		South Italy and Islands	
	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses	Net exposure	Total imp. losses
A. On-balance sheet exposures								
A.1 Non-performing								
A.2 Unlikely to pay								
A.3 Past due impaired exposures								
A.4 Not impaired exposures	51,495		1,909		1,389		600	
Total A	**51,495**		**1,909**		**1,389**		**600**	
B. Off-balance sheet exposures								
B.1 Non-performing								
B.2 Unlikely to pay								
B.3 Other impaired assets								
B.4 Not impaired exposures								
Total B								
Total (A+B) 2015	**51,495**		**1,909**		**1,389**		**600**	
Total (A+B) 2014	**23,250**		**9,841**		**40,093**		**1,556**	

B.4 Large exposures

At December 31, 2015, there are 15 "large exposures", that is - as indicated in Bank of Italy Circular 263 of December 27, 2006, and subsequent updates, "*New prudential supervision regulations for banks*", risk positions equal to or higher than 10% of eligible capital which, for Banca Farmafactoring, corresponds to own funds.

For these positions, the nominal amount is €3,216,882 thousand (unweighted) and the weighted amount is €253,633 thousand.

However none of these positions exceeds the individual limit of 25% of the eligible capital of the Bank.

C. Securitization transactions

This section presents "qualitative" and "quantitative" information on the transactions for the securitization and 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." and "BayernLB – Farmafactoring SPV II S.r.l."

The reimbursement of the Senior Notes under the FF Finance S.r.l. securitization program, originally for an amount of €100 million, was completed on February 25, 2015.
During March 2015 agreements were signed with SPV (*Issuer*), the Intesa Sanpaolo Group (*Account Bank* and *Cash Manager*), Duomo Funding Plc (*Noteholder*) and other counterparties to the transaction for the closing of the securitization transaction, authorizing:
• cancellation of all the contracts relating to the transaction;
• repurchase, on the part of Banca Farmafactoring, of the receivables portfolio still *outstanding* with the SPV and the debit notes issued and not yet collected.

During 2015 the Bank then liquidated and cancelled the special purpose vehicle FF Finance S.r.l..
Securitization transactions were also conducted with BayernLB - Farmafactoring SPV II S.r.l. and the Senior Notes and the closing of the securitization program had been completed in 2014.

The accounting records of the special purpose vehicles showed only a single important asset, a tax credit of €126 thousand, with regard to the FF Finance program, and €66 thousand, with regard to the Farmafactoring SPV II S.r.l. program.

Each of the SPVs filed a request for the reimbursement of the respective credits through the procedure for the IRES reimbursement via the tax account, with the issue of a four-year guarantee by the Bank.

In order to facilitate the cancellation of the SPVs, the credit was assigned to the Bank. After assigning the tax credit and paying what was due to the Bank, the companies FF Finance S.r.l. and Farmafactoring SPV II S.r.l. were cancelled from the Companies Register.
The Bank became the holder of the tax credit and is continuing to take the necessary steps to obtain a refund from the Revenue Office for the IRES credit.

Information on the transaction with "Deutsche Bank – Farmafactoring SPV I S.r.l."

Qualitative information

Strategies, processes and objectives

During 2015, the Bank renegotiated the securitization transaction with the Deutsche Bank Group on the non-recourse sale of receivables due from the ASLs and AOs, with the aim of diversifying the Bank's funding activities.

Characteristics of the transaction

The receivables were sold under ex Law 130/99 to a special purpose vehicle, Farmafactoring SPV I S.r.l., which financed the purchase by issuing securities for €150 million, subscribed to by Deutsche Bank AG.

The transaction provides for a revolving period valid up to June 30, 2016 during which sales of *receivables* 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 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.

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, 2015 is about €250.5 million.

C.1 Exposure arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

(in € thousands)

Type of securitized assets/Exposure	On-balance sheet exposure						Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev	Carrying amt.	Impair. loss/rev
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**87,837**	**(40)**																
C.1 Farmafactoring SPV I - *Factoring*	87,837	(40)																

C.3 Securitization vehicle company

(in € thousands)

Securitization/ Vehicle company name	Registered office	Consolidation	Assets			Liabilities		
			Receiva-bles	Debt se-curities	Other	Senior	Mezzan.	Junior
Farmafactoring SPV I S.r.l.	Milan - Via Statuto, 10	Line-by-line	311,234		16	150,000		

E. Sales transactions

A. Financial assets sold and not fully 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, 2015 there is a transaction still outstanding that was structured with Deutsche Bank on healthcare receivables that were sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale.
The value of the receivables sold and not derecognized amounts to €233,483 thousand.
The other amounts "Due from customers", for a total of €418,031 thousand refer to receivables used as collateral for the financing transactions with Ifitalia and Unicredit Factoring.

There are also repurchase transactions, for about €920 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 Financial assets sold but not derecognized: carrying amount and total amount

(in € thousands)

Type/ Assets portfolio	Financial assets held for trading			Fin. 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	12.31.15	12.31.14
A. Balance sheet assets							**94,767**			**822,350**						**651,515**			**1,568,632**	**837,732**
1. Debt securities							94,767			822,350									**917,117**	**595,047**
2. Equity instruments																				
3. Units in investment funds																				
4. Loans																651,515			**651,515**	**495,264**
B. Derivative instruments																				
Total 2015							**94,767**			**822,350**						**651,515**			**1,568,632**	
of which impaired																*4,658*			***4,658***	
Total 2014										**595,047**						**495,264**				**1,090,311**
of which impaired																				

Key:
A = financial assets sold and fully recognized (carrying amount)
B = financial assets sold and partly recognized (carrying amount)
C = financial assets sold and partly recognized (total amount)

E.2 Financial liabilities compared to financial assets sold but not derecognized: carrying amount

(in € thousands)

Liabilities/ Assets 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
1. Due to customers			**94,694**	**825,777**		**412,660**	**1,333,131**
a) related to assets fully recognized			94,694	825,777		412,660	**1,333,131**
b) related to assets partly recognized							
2. Due to banks							
a) related to assets fully recognized							
b) related to assets partly recognized							
Total 2015			**94,694**	**825,777**		**412,660**	**1,333,131**
Total 2014				**595,034**		**349,244**	**944,278**

SECTION 2 - MARKET RISK

2.1 Interest rate risk and price risk - Regulatory trading book

Qualitative information

A. General aspects

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.

At December 31, 2015 there are no hedging derivatives.
This situation is due to the fact that the bond and direct deposit-taking positions, both at fixed rates, represent a natural hedge of the risk of a fluctuation in interest rates which satisfies all the requisites of the internal policies.

2.2 Interest rate risk and price risk - Banking portfolio

Qualitative information

A. General aspects, operational processes and methods for measuring interest rate risk and price 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 interest rate sensitivity analysis 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 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 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 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 Bank regularly monitors interest rate risk, as well its management, through *ad hoc* reporting.

Interest rate risk is assumed in connection with 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.

Quantitative information

1. Banking portfolio: distribution by residual duration (repricing date) of financial assets and liabilities

Currency: EURO (in € thousands)

Type/ Residual duration	On demand	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspeci-fied maturity
1. Balance sheet assets	**553,631**	**390,687**	**710,638**	**554,016**	**1,008,664**	**31,271**	**1,851**	
1.1 Debt securities		51,493	486,359	167,417	547,004			
- with prepayment option								
- other		*51,493*	*486,359*	*167,417*	*547,004*			
1.2 Loans to banks	49,605	5,788						
1.3 Loans to customers	504,026	333,406	224,279	386,599	461,660	31,271	1,851	
- current account								
- other loans	*504,026*	*333,406*	*224,279*	*386,599*	*461,660*	*31,271*	*1,851*	
- with prepayment option								
- other	*504,026*	*333,406*	*224,279*	*386,599*	*461,660*	*31,271*	*1,851*	
2. Balance sheet liabilities	**153,007**	**2,110,099**	**39,894**	**163,337**	**402,158**	**45**		
2.1 Due to customers	153,007	1,427,023	39,894	158,337	99,196	45		
- current account	*30,929*	*93,984*	*39,894*	*158,337*	*99,196*	*45*		
- other payables	*122,078*	*1,333,039*						
- with prepayment option								
- other	*122,078*	*1,333,039*						
2.2 Due to banks		683,076		5,000				
- current account				*5,000*				
- other payables		*683,076*						
2.3 Debt securities					302,962			
- with prepayment option					*302,962*			
- other								
2.4 Other liabilities								
- with prepayment option								
- other								
3. Financial derivatives								
3.1 Physically settled								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Cash settled								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
4. Other transactions off-balance sheet								
+ long positions								
+ short positions								

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 Bank'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 Bank's asset portfolio is entirely expressed in euros; accordingly, there are no methods for the measurement and management of such risk.

2.4 Derivative instruments

At December 31, 2015 the Bank does not have positions in derivatives.

A. Financial derivatives

A.1 Regulatory trading book: year-end notional amounts

(in € thousands)

Underlyings/Derivative types	Total 12.31.2015		Total 12.31.2014	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates			**30,000**	
a) Options				
b) Swaps			30,000	
c) Forwards				
d) Futures				
e) Other				
2. Equity instruments and share indexes				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currency and gold				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total			**30,000**	

BANCA FARMAFACTORING

A.2 Banking book: year-end notional amounts

A.2.1 Hedging derivatives

(in € thousands)

Underlyings/Derivative types	Total 12.31.2015		Total 12.31.2014	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates			**55,000**	
a) Options				
b) Swaps			55,000	
c) Forwards				
d) Futures				
e) Other				
2. Equity instruments and share indexes				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
3. Currency and gold				
a) Options				
b) Swaps				
c) Forwards				
d) Futures				
e) Other				
4. Commodities				
5. Other underlyings				
Total			**55,000**	

A.4 Financial derivatives: gross negative fair value - breakdown by product

(in € thousands)

Portfolios/Derivative types	Negative *fair value*			
	Total 12.31.2015		Total 12.31.2014	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading book			**46**	
a) Options				
b) Interest rate swaps			46	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking book – hedging derivatives			**47**	
a) Options				
b) Interest rate swaps			47	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking book – other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total			93	

SECTION 3 - 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:*** the risk of mismatch between the amounts and/or the timing inflows and outflows.
• ***Liquidity Contingency Risk:*** 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:*** the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions, and being forced to keep them in the absence of the market itself.
• ***Operational Liquidity Risk:*** 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:*** 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 regulations 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 Bank 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 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 on 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 duration of financial assets and liabilities - Currency: EURO

(in € thousands)

Items/Duration	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	Unspecified maturity
Balance sheet assets	**552,241**	**11,440**	**21,996**	**23,153**	**161,799**	**292,971**	**568,579**	**1,594,543**	**38,646**	
A.1 Government securities			11,121		42,334	67,509	177,186	945,442		
A.2 Other debt securities										
A.3 Units in investment funds										
A.4 Loans	552,241	11,440	10,875	23,153	119,465	225,462	391,393	649,101	38,646	
- Due From banks	*49,605*	*5,788*								
- Due From customers	*502,636*	*5,652*	*10,875*	*23,153*	*119,465*	*225,462*	*391,393*	*649,101*	*38,646*	
Balance sheet liabilities	**150,302**	**366,365**	**278,717**	**525,855**	**79,674**	**309,626**	**371,029**	**732,092**	**45**	
B.1 Deposits and current accounts	28,224	23,447	7,006	14,013	79,674	189,990	225,475	336,487	45	
- Due To banks		*5,000*			*25,006*	*149,811*	*64,969*	*237,291*		
- Due To customers	*28,224*	*18,447*	*7,006*	*14,013*	*54,668*	*40,179*	*160,506*	*99,196*	*45*	
B.2 Debt securities						8,227		300,000		
B.3 Other liabilities	122,078	342,918	271,711	511,842		111,409	145,554	156,605		
Off-balance sheet transactions										
C.1 Physically settled financial derivatives										
- Long positions										
- Short positions										
C.2 Cash settled financial derivatives										
- Long positions										
- Short positions										
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 given										
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										

SECTION 4 – 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.

For the Bank, the exposure to this category of risk is generated predominately by failures in the working process and in the organization and governance structure – 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 Bank 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 Bank. 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 Bank 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 Bank 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 Bank 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, 2015 is equal to €23,428 thousand.

Part F - Equity

Section 1 - Equity of the Bank

A. Qualitative information

The equity of the Bank 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 the Bank of Italy and constitutes the basis of reference of the prudential supervision regulations.

B. Quantitative information

B.1 Equity of the Bank: breakdown

(in € thousands)

Items/Amounts	Amounts 12.31.2015	Amounts 12.31.2014
1. Share capital	130,900	130,900
2. Share premium		
3. Reserves		
- profit		
a) legal	26,180	21,489
b) statutory		
c) treasury shares		
d) other	100,649	31,588
- other		
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves		
- Available-for-sale financial assets	481	238
- Property, plant and equipment		
- Intangible assets		
- Hedges of net investments in foreign subsidiaries		
- Cash flow hedges		(27)
- Foreign exchange differences		
- Non-current assets held for sale		
- Actuarial gains/losses relating to defined benefits plans	(120)	1
- Share of valuation reserves from investments accounted for using the equity method		
- Special revaluation laws	3,823	3,823
7. Profit for the year	59,659	122,202
Total	**321,572**	**310,214**

B.2 Valuation reserves for available-for-sale financial assets: breakdown

(in € thousands)

Assets/Amounts	Total 12.31.2015		Total 12.31.2014	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	481		238	
2. Equity instruments				
3. Units in investment funds				
4. Loans				
Total	**481**		**238**	

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 €481 thousand in the valuation reserve at December 31, 2015.

B.3 Valuation reserves for available-for-sale financial assets: annual changes

(in € thousands)

	Debt securities	Equity instruments	Units in investment funds	Loans
1. Beginning balance	**238**			
2. Positive changes				
2.1 Increases in fair value	481			
2.2 Reclassification of negative reserves to income statement				
- due to impairments				
- following disposal				
2.3 Other changes				
3. Negative changes				
3.1 Decreases in fair value				
3.2 Impairment losses				
3.3 Reclassification of positive reserves to income statement following disposal	(238)			
3.4 Other changes				
4. Ending balance	**481**			

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.
This generated a positive change in the valuation reserves, for 2014, of approximately €1 thousand.

Section 2 - Own funds and regulatory ratios

2.1 Own funds of the Bank

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 Bank 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 the sum 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 the own funds of the Bank are computed in *Common Equity Tier 1 Capital* (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: special revaluation laws.

Items to be deducted are other 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 to the central administrations classified in the 'Available-for-sale financial assets' category of IAS 39 approved by the EU" (option allowed by the Supervisory Bulletin 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 Bank will exclude unrealized gains or losses relating to the above-indicated exposures from own funds.

Own funds of the Bank do not include capital items qualifying as *Additional Tier 1 Capital* (AT1) and *Tier 2 Capital* (T2).

B. Quantitative information

(in € thousands)

Items/Amounts	Total 12.31.2015	Total 12.31.2014
A. Common Equity Tier 1 Capital (CET1) before prudential filters	**252,326**	**261,526**
of which grandfathered CET1 instruments		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and effects of transitional adjustments (A +/- B)	**252,326**	**261,526**
D. Elements to be deducted from CET1	**(2,747)**	**(2,052)**
E. Transitional adjustments – Effect on CET1 (+/-)		
F. Total Common Equity Tier 1 Capital (CET1) (C - D +/- E)	**249,579**	**259,474**
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and effects of transitional adjustments		
of which grandfathered AT1 instruments		
H. Elements to be deducted from AT1		
I. Transitional adjustments – effect on AT1 (+/-)		
L. Total Additional Tier 1 Capital (AT1) (G - H +/- I)		
M. Tier 2 Capital (T2) gross of items to be deducted and effect of transitional adjustments		
of which grandfathered T2 instruments		
N. Elements to be deducted from T2		
O. Transitional adjustments – Effect on T2 (+/-)		
P. Total Tier 2 Capital (T2) (M - N +/- O)		
Q. Total Own Funds (F + L + P)	**249,579**	**259,474**

2.2 Capital adequacy

A. Qualitative information

Compliance with capital adequacy limits both at the Base Level (*CET1 Capital Ratio* and *Tier 1 Capital Ratio*), and the *Total Capital Ratio* is constantly monitored by the competent corporate bodies.

The *CET1 Capital Ratio* is given by the ratio of Common Equity Tier 1 Capital to Risk-Weighted Assets.
The *Tier 1 Capital Ratio* is given by the ratio of Tier 1 Capital to Risk-Weighted Assets.
The *Total Capital Ratio* is given by the ratio of Total Own Funds to Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005, and subsequent updates, "*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%).

Banca Farmafactoring's total exposure to business risks at December 31, 2015 is considered adequate in relation to the level of capitalization and the profile of risk identified.

The *CET1 Capital Ratio*, the *Tier 1 Capital Ratio* and the *Total Capital Ratio* are 20.8%.

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 Healthcare 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 loans.

Receivables from the Portuguese health service are weighted at 100% since the country rating is Credit Quality Class 3.

The Bank 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 that 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 Bank 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 Bank 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 book. At December 31, 2015, there are no outstanding positions that fall in the regulatory trading book.

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.

Each year the Banking Group presents the ICAAP summary to the Bank of Italy by April 30. The ICAAP summary shows the updated risk management system for the determination of the adequacy of capital.

B. Quantitative information

(in € thousands)

Categories/Amounts	Unweighted assets		Weighted assets/requirements	
	12.31.2015	12.31.2014	12.31.2015	12.31.2014
A. RISK ASSETS				
A.1 Credit and counterparty risk				
1. Standardized approach	3,324,892	3,031,278	905,840	895,554
2. Internal rating based (IRB) approach				
2.1 Basic indicator approach				
2.2 Advanced measurement approach				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			72,467	71,644
B.2 Credit valuation adjustment risk				
B.3 Settlement risk				
B.4 Market risk				
1. Standardized approach				94
2. Internal models				
3. Concentration risk				
B.5 Operational risk				
1. Basic indicator approach			23,428	22,512
2. Standardized approach				
3. Advanced measurement approach				
B.6 Other calculation elements				
B.7 Total capital requirements			**95,895**	**94,251**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			1,198,695	1,178,138
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (*CET1 capital ratio*) (%)			**20,8%**	**22,0%**
C.3 Tier 1 Capital/Risk-weighted assets (*Tier 1 capital ratio*) (%)			**20,8%**	**22,0%**
C.4 Total Own Funds/Risk-weighted assets (*Total capital ratio*) (%)			**20,8%**	**22,0%**

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 H - Related Party Transactions

1. Information on compensation to key executives

Banca Farmafactoring S.p.A.
- Compensation to the directors: €1,549 thousand.
- Compensation to the board of statutory auditors: €177 thousand.

On November 4, 2015, after approval by the Bank of Italy, 1,602,341 shares, representing 94.26% of the share capital of Banca Farmafactoring, were transferred to BFF Luxembourg S.à r.l., a company controlled by the Centerbridge Partners Europe L.P. Fund, by the majority shareholder Farma Holding S.à r.l. and some minority shareholders.

The directors and executives of Banca Farmafactoring sold the investment in Banca Farmafactoring S.p.A. and invested in BFF Lux Holdings S.à r.l., the majority shareholder of BFF Luxembourg S.à r.l..

The following table shows the number of shares, equal to 3.77% of share capital, held by directors and executives of Banca Farmafactoring in BFF Lux Holdings S.à r.l., at December 31, 2015.

	Number of shares	Company
Directors and executives	16,279,126	BFF Lux Holdings S.à r.l.

2. Information on related party transactions

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 2015, amounted to about €441 thousand.

There is also an *intercompany* loan agreement between Banca Farmafactoring and Farmafactoring España, entered into on an arm's length basis, which was utilized for €173 million at December 31, 2015.

The ordinary shareholders' meeting of Farmafactoring España held on February 24, 2016 approved the financial statements for the year ended December 31, 2015. Thanks to the gains made in volumes and collections, the subsidiary reported a 420% increase in profit to €9,131 thousand from €2,175 thousand in the prior year.
Following its engagement for a voluntary audit, Deloitte S.L. expressed an unqualified opinion on the financial statements of Farmafactoring España S.A..

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.
Finally it should be mentioned that there are deposit account relationships with directors of the Group.

Other disclosure

Fees paid to the audit firm and other firms in its network

As required by art. 149-*duodecies* of the CONSOB Issuers Regulation (Resolution 11971 of May 14, 1999, and subsequent amendments and additions), the following table indicates the fees paid in 2015 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.	136
Certification services (*)	PricewaterhouseCoopers S.p.A.	3
Other services (**)	PricewaterhouseCoopers S.p.A.	527
Other services (***)	PricewaterhouseCoopers Advisory S.r.l.	75
Other services (****)	PricewaterhouseCoopers Advisory S.r.l.	560
Total		**1,301**

(*) Issuance of comfort letters on the agreed procedures relating to compliance with financial covenants required by certain loan contracts.
(**) Activities conducted mainly in connection with the Bank's listing process during 2015.
(***) Services rendered for methodological support in certain company projects.
(****) Due diligence activities performed by firms in the PwC international network on potential acquisitions of foreign companies.

BANCA FARMAFACTORING

03 BOARD OF STATUTORY AUDITORS' REPORT

To the shareholders' meeting of Banca Farmafactoring S.p.A.

Board of Statutory Auditors' Report on the Financial Statements for the year ended December 31, 2015 of Banca Farmafactoring S.p.A.

Dear Shareholders,

We have examined the draft financial statements at December 31, 2015 of Banca Farmafactoring S.p.A. (hereinafter also the "Bank"). These include the statutory and consolidated financial statements, comprising the notes and schedules thereto, as well as the directors' report on operations, duly submitted to the board of statutory auditors.
This report is prepared pursuant to art. 153 of Legislative Decree 58/98 and art. 2429 of the Italian Civil Code as the engagement for the audit of the Bank's financial statements, pursuant to art. 2409 *bis* of the Italian Civil Code, has been assigned to the audit firm of PricewaterhouseCoopers S.p.A.
The board's work on the monitoring and control activities pursuant to art. 2403 of the Italian Civil Code and the provisions of Legislative Decree 58/98 has been guided by the Code of Conduct of the board of statutory auditors as recommended by the National Boards of Dottori Commercialisti and Esperti Contabili.
The results of the board of statutory auditors' work, carried out in conjunction with the Internal Audit Operating Unit and with the supervisory body of the Bank are presented below. In this regard, it should be noted that the function of the supervisory body was not transferred to the board of statutory auditors but is carried out by a third-party body. The board of statutory auditors met ten times during 2015.

Significant events during the year

During the year a branch of the Bank was opened in Madrid. Authorization was received from Banco de España on February 18, 2015. The branch began operations the following July.
On February 5, and April 22, 2015 the company was the subject of an in-depth inspection by the Bank of Italy which, on July 15, issued its Findings and Observations. The report did not contain any matters such as to lead to the application of sanctions. The board of directors in its meeting of September 10, 2015 approved the document sent to the Regulatory Authority describing the actions and the related timing for implementation that the Bank intends to take in respect of the recommendations received as a result of the inspection.
As referred by the directors, on November 4, 2015, after obtaining the authorizations required by law, 94.26% of the share capital of the Bank was transferred to BFF Luxembourg S.à r.l., with the consequent change in its majority shareholder.
The directors particularly made reference to its solid financial strength, calculated at the end of the year, and shared by the board of statutory auditors, which expresses a Tier 1 Total Capital Ratio of 24.3%, and other specific indicators.

Control and monitoring activities on the organizational structure

The board of statutory auditors has acquired information and monitored, as far as its responsibilities are concerned, the adequacy of the organizational structure adopted by the Bank and its actual functioning, through meetings and direct observations and through the gathering of information from the persons in charge, in addition to acquiring additional necessary information from the firm appointed to audit the financial statements, PricewaterhouseCoopers S.p.A.

The board takes note that the organizational structure of the Bank is adequate in relation to the needs of the business currently being conducted. As for the system of internal control, with reference to the requirements of the banking parent, also in agreement with the recommendations of the Bank of Italy following its inspection, the Bank is evaluating and expanding some structures particularly the Compliance function.

Control and monitoring activities on the accounting and administrative system and on the principles of proper administration

The board has monitored the adequacy of administrative and accounting system adopted, as well as its reliability to properly represent the operating events. The board has proceeded, during the course of the year, with the customary exchange of information with the firm charged with the audit, through joint meetings, and at the conclusion of which there were no critical matters that should be mentioned in this report.

The board has taken part in the shareholders' meetings and meetings of the board of directors and, through its chairman, the meetings of internal committees, which have been conducted in accordance with the bylaws, laws and regulations which govern their functioning and for which we can reasonably assure you that the motions resolved have been in compliance with the law and bylaws and that they have not been manifestly imprudent, risky, in conflict of interest or such as to compromise the integrity of the company's assets.

The board has also obtained adequate information from the directors on the general performance of operations and the future outlook as well as on the most significant transactions, in terms of size or features, carried out by the Bank and its subsidiary, and, in this regard there are no significant matters to report.

In 2015, and up to the date of the preparation of this report, the board did not receive complaints pursuant to art. 2408 of the Italian Civil Code, or received petitions or claims or notices of reprehensible actions.

The board of statutory auditors has no matters to report to the shareholders as regards the adequacy of the administrative and accounting system of the Bank and observance of the principles of proper administration.

Control and monitoring activities on the system of internal control

The board has followed the activities performed by the internal control functions, verifying the status of the implementation of the work plans and the results achieved. During the course of the year there was effective coordination of the activities and information flows among the various parties, including the board of statutory auditors.

The board has also taken note of the activity carried out by the supervisory body nominated to ensure the adequacy, observance and updating of the organizational and operational

model pursuant to Legislative Decree 231/2001 and also monitored the requisites of efficiency and independence related thereto, through meetings and direct participation in the work itself. The board has also ascertained that the Bank has complied with the obligation of correspondence and communications with the regulatory authorities.
Lastly, during the course of the year the Bank has obtained certification of the Quality Management System in accordance with professional standard UNI EN ISO 9001: 2008 relating to the audit process.

Control and monitoring activities carried out by the board of statutory auditors in relation to the duties attributed as the "Internal Control and Audit Committee"
In 2015 the board of statutory auditors has continued the verification activities attributed to it as the Internal Control and Audit Committee, with which the board of statutory now identifies itself.

As for the function conducted as the committee for internal control, the board has overseen the adequacy of the financial information process and their information flows, was therefore constantly kept updated by the Internal Audit function about the activities carried out, in line with the established verification plan for 2015. With reference to the monitoring and control activities over anti-money laundering, in 2015 the board was informed through the report on the activities performed by the Risk Management, Compliance and Anti-Money Laundering Operating Unit and through the periodic updates received during the meetings of the board and the Tableau de Bord.

As for the function conducted as the audit committee, we would like to remind you that PricewaterhouseCoopers S.p.A. has been appointed for the audit of the financial statements. The board, in order to carry out its work independently, asked the audit firm to provide disclosure on the following:
(i) information on the tests carried out on the company' accounting system and on the proper recognition of operating events in the accounting entries;
(ii) the report by the audit firm required by art. 19, paragraph 3 of Legislative Decree 39/2010 describing the fundamental matters that arose during the audit and any significant weaknesses in the internal control system regarding the financial information process, in which there were no significant matters to report;
(iii) confirmation of the independence of the audit firm required by art. 17, paragraph 9, letter a) of Legislative Decree 39/2010 and giving information on the non-audit services rendered to the Bank by the audit firm or by entities in its same network, discussing the risks relating to their independence as well as the measures adopted to limit such risks;
(iv) activities conducted by the supervisory body as established in the organizational and operational model adopted by the Bank pursuant to Legislative Decree 231/2001.

Monitoring and control activities over related party transactions
The board has monitored the compliance with the regulation approved by the board of directors on recently updated transactions with related parties as well as observance of

the regulation itself. During the course of the year 2015, the board has not noted the existence of atypical and/or unusual transactions with related parties, intragroup, or with other parties, nor have there been indications in that sense from the board of directors or the independent auditors.
The transactions between the Bank and certain shareholder companies and between the Bank and its subsidiary are based on ordinary operating activities and are in the interests of the Bank, as stated by the directors in the report on operations. Such transactions are carried out on an arm's length basis and take into account the characteristics of the transactions that have been entered into. Information regarding related party transactions is disclosed in Part H of the Notes.

Conclusions on the monitoring and control activities

In concluding on the monitoring and control activities carried out by the board of statutory auditors as described above, we can reasonably affirm that the Bank's activities have been carried out in accordance with the law and the bylaws and that the organizational, administrative and accounting structures as well as its actual functioning, is adequate.
The board of statutory auditors has taken note of the reports issued by the independent auditors on March 11, 2016 pursuant to articles 14 and 16 of Legislative Decree 39/2010, which express unqualified opinions, without exceptions, on the statutory financial statements of the Bank and the consolidated financial statements of the Banking Group. The same reports also express favorable opinions on the consistency of the report on operations with the financial statement documents as set out in art. 14, paragraph 2, letter e) of Legislative Decree 39/2010.
Taking into account the contents of those reports, the board of statutory auditors, on the basis of the draft financial statements at December 31, 2015, has no reasons to oppose the approval of the financial statements for the year ended December 31, 2015 and expresses a favorable opinion on the motion for the appropriation of the profit for the year proposed by the board of directors.

Milan, March 11, 2016

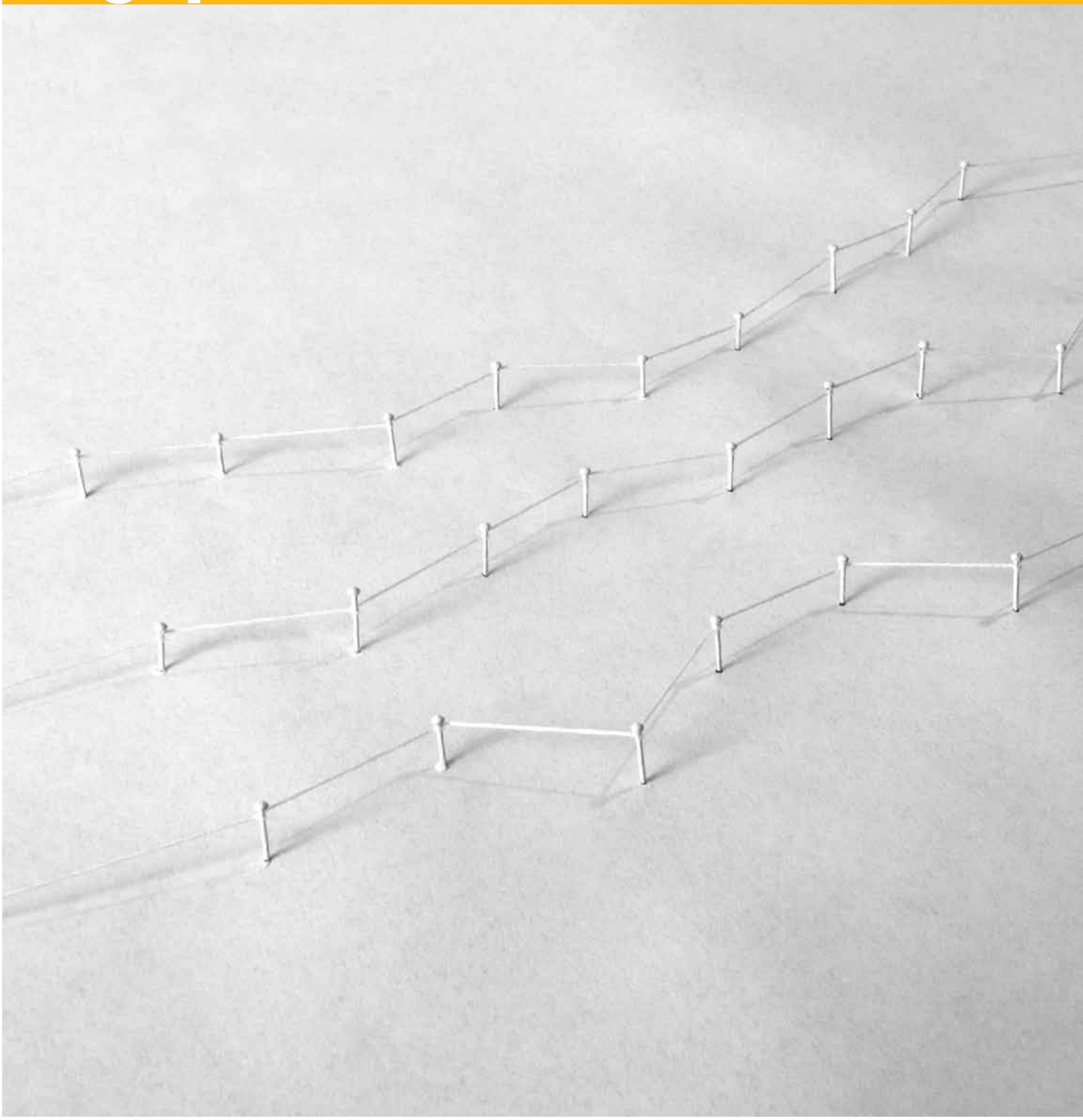
The Board of Statutory Auditors

Francesco Tabone

Marco Lori

Patrizia Paleologo Oriundi

04 INDEPENDENT AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE No. 39 OF 27 JANUARY 2010

To the shareholders of
Banca Farmafactoring S.p.A.

Report on the financial statements

We have audited the accompanying financial statements of Banca Farmafactoring S.p.A., which comprise the balance sheet as of 31 December 2015, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended and the related notes, which include a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) drawn up pursuant to article 11, paragraph 3, of Legislative Decree No. 39 of 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Banca Farmafactoring S.p.A. as of 31 December 2015 and of the result of its operations and cash flows for the year then ended in compliance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005.

Report on compliance with other laws and regulations

Opinion on the consistency of the report on operations with the financial statements

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion, as required by law, on the consistency of the report on operations, which is the responsibility of the directors of Banca Farmafactoring S.p.A., with the financial statements of Banca Farmafactoring S.p.A. as of 31 December 2015. In our opinion, the report on operations is consistent with the financial statements of Banca Farmafactoring S.p.A. as of 31 December 2015.

Milan, 11 march 2016

PricewaterhouseCoopers SpA

Signed by

Giovanni Ferraioli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers. We have not examined the translation of the financial statements referred to this report.

Resolutions of the ordinary Annual General Shareholders' Meeting

The ordinary Annual General Shareholders' Meeting, which met in first call on March 31, 2016, approved the financial statements for the year ended December 31, 2015, consisting of the balance sheet, income statement and notes thereto, together with the Board of Directors' Report on Operations, acknowledging the report of the Board of Statutory Auditors and the report of the audit firm pursuant to law.

The meeting approved the payment of dividends of €40.45 for each of the 1,700,000 outstanding shares, equal to a total of €68,765,000, drawn from:
- profit for the year, for €59,659,457;
- retained earnings, for €9,105,543.

The meeting also passed resolutions on the following:

- appointment of two directors, up to the date of the approval of the financial statements for the year ended December 31, 2017, to join the Board of Directors nominated on November 4, 2015,: Gabriele Michaela Aumann (maiden name, Schindler) and Mark John Arnold;

- appointment of an acting auditor and an alternate auditor, up to the date of the approval of the financial statements for the year ended December 31, 2017, to join the Board of Statutory Auditors nominated on November 4, 2015:
Patrizia Paleologo Oriundi - *Acting Auditor*, and Giancarlo De Marchi - *Alternate Auditor*.

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