BANCA FARMAFACTORING

2013 ANNUAL REPORT

Banca Farmafactoring S.p.A.
Registered office in Milan
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Share capital €130,900,000 (fully paid-in)
Company Register No. 249145
Tax Code No. 07960110158

ANNUAL REPORT 2013 29th YEAR

Milan, April 14, 2014

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

The shareholders are hereby convened to the ordinary General Annual Shareholders' meeting to be held at the headquarters of the Company, in Milan, Via Domenichino 5, in first call, on Tuesday April 29, 2014 at 9:00 and, should it prove necessary, **in second call**, on **Tuesday May 6, 2014 at 10:00**, at the same 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, 2013, the Board of Directors' Report on Operations and the Board of Statutory Auditors report; respective and pertinent resolutions.

2. Compensation and incentive policies regarding the members of the Boards and Bodies for strategic supervision, management and control, and key executives of the Banca Farmafactoring Banking Group. Annual Report on Compensation and Incentive Policies of the Banca Farmafactoring Banking Group. Internal Audit Report on Compensation Policies – Year 2013.

3. Internal control policies adopted by the Banca Farmafactoring Banking Group for the management of conflicts of interest and Report on transactions with related parties.

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

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Board of Directors

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

Board of Statutory Auditors

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

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 situation and about the situation in our own country.

The International Economic Scenario

In 2013, the global economy showed moderate signs of recovery, especially in the last quarter of the year. The growth of global economic activity and international trade led to an increase in global GDP of 2.7%.

Factors contributing to this scenario include the increase in consumption in the United States and the United Kingdom, and growth keeping pace in China, thanks to exports and the still considerably high level of consumption and investments. Meanwhile, in the Eurozone, there was only a modest recovery, thanks to more favorable financial conditions arising from more concrete prospects of recovery and more flexible monetary policies, accompanied by low inflation.

In the main industrialized countries outside the Eurozone, monetary policies remained expansive, as a result of persisting weak economic growth and expectations of moderate inflation. In the U.S., the Federal Reserve, where Ben Bernanke was replaced by Janet Yellen, left interest rates unchanged at 0.25%, and initiated a phase of tapering monetary stimulus and trimming purchases of government securities.
The Bank of Japan and the Bank of England maintained the same interest rates unchanged, at 0.10% and 0.50% respectively.

In the Eurozone, too, in the light of a long period of low inflation, limited access to money and credit, and weak economic activity, the ECB brought the rate on the main refinancing operations and marginal lending facilities to 0.25% and 0.75% respectively.

In 2013, the process of creating a Banking Union continued: the ECB and national competent authorities launched a comprehensive assessment process that will look in depth at the financial statements and risks of investment firms, which will be directly monitored by the ECB. In particular, the process will include an asset quality review, a supervisory risk assessment and a stress test coordinated with the European Banking Authority. A decisive contribution to the creation of a set of uniform rules that are binding on a European level was provided by EU Regulation 575/2013, the aim of which is to strengthen banks' capacity to absorb shocks deriving from financial and economic tensions, improve risk management and increase transparency. The Regulation has introduced higher capital requirements and new systems for supervising liquidity risk; it emphasizes the importance of the structures and internal controls to ensure the stability of individual banks and the financial system as a whole. Furthermore, the Council of Ministers for Economics and Finance of EU member states has taken another step towards the completion of the Banking Union, finding agreement to create a fund for a Single Resolution Mechanism to deal with banking crises.

The easing of tensions on the sovereign debt in the Eurozone helped to strengthen the European currency. The euro gained in value against the U.S. dollar, with an exchange rate of 1.3791, posting a change of 4% compared to the end of 2012 (when the exchange rate was 1.3194).

Inflation remained at a very moderate level in the main industrialized countries, reflecting the weakness of the cyclical phase. According to the latest OECD estimates, the annual inflation rate in the United States fell to 1.5% from 2.1% in 2012, whereas, in the Eurozone, it settled at 1.4%, compared to 2.5% in the prior year. In 2014, inflation rates in the United States and the Eurozone are expected to come to approximately 1.8% and 1.2% respectively.

In this scenario, according to the latest OECD estimates, in the United States, GDP should be around +1.7% whereas, in 2014, it is expected to arrive at +2.9%. One of the most comforting signs from the U.S. economy is the improvement in the employment figures; the unemployment rate has continued to decrease and, in December, was 6.7% compared to 8% at the beginning of the year. In the Eurozone, in 2013, the contraction in GDP is expected at 0.4%, compared to a reduction of 0.6% in 2012, and a forecast of 1% growth in the current year. With regard to the stronger economies, there is modest GDP growth in Germany (+0.5%), and virtual stagnation in France (+0.2%). Italy and Spain are experiencing greater difficulty, with a fall in GDP which be around at 1.9% and 1.3% respectively.

In the leading emerging countries, economic activity followed different trends in different places. Growth in China strengthened, thanks to the measures to sustain investments and exports. However, GDP remained modest in India, Brazil and Russia. In 2013, GDP is expected to post 7.7% in China, 3.0% in India, 2.5% in Brazil and 1.5% in Russia.

According to the latest OECD projections, global GDP should continue to grow in 2014, with an increase of 3.6% compared to 2.7% in 2013, while world trade is expected to increase by 4.8%. Recovery is anticipated to take different forms in the world's leading economies: whereas there is expected to be moderate growth in Europe (1.0%), expansion of 2.9% is projected in the United States and 2.4% in the United Kingdom. With regard to the emerging economies, the recovery is likely to be more dramatic in China and India, with growth of 8.2% and 4.7% respectively, whereas it is expected to be lower in Brazil and Russia, with growth of 2.2%. However, the future growth of the global economy is still at risk, despite the improvements recorded in the last part of the year.

The Italian Economy in 2013 and Forecasts for 2014

According to OECD figures, in 2013, it is estimated that, in Italy, GDP contracted by 1.9%, compared with a contraction of 2.4% in the prior year. However, in the last quarter of the year, the GDP is thought to have ended its decline.

Benefiting from the acceleration of international trade, exports increased, especially towards EU countries. Furthermore, from the third quarter of 2013 onwards, after a contraction that lasted for ten consecutive quarters, imports of goods and services, including intermediate products and capital goods, also posted positive figures. Industrial production also continued the moderate upward trend begun in September, thanks to companies being more confident, while investments in capital goods began to decline again. However, household consumption remained stagnant due to the lack of disposable income and difficulties on the labor market.

In December 2013, in Italy, annual inflation was recorded at 1.4%, compared to 3.3% in the prior year. The fall in inflation benefited both from the prices of energy products and from moderation in basic components. The easing of pressure on prices was also affected by the weakness of the economy, heightened by a fall in demand and the length of the recession. This meant that the increase in VAT, which went up to 22% on October 1, 2013, had a limited effect on consumer prices. The present scenario contributed to a fall in the expectations of inflation in the short term, now positioned at 1.3% for 2014, whereas longer-term expectations of inflation are around 2.0%.

The rate of unemployment at the end of December rose to 12.7%, an increase of 1.2% on an annual basis. In 2014, the Bank of Italy predicts that employment will decrease by 0.1%, and has made the same prediction for 2015.

Greater confidence in the markets and the decline of the risk of disintegration of the Eurozone had a positive influence on the spread between ten-year BTP government bonds and the corresponding German bonds, bringing the spread to approximately 180 base points, the level reached back in July 2011.

The attenuation of tensions on sovereign debt markets enabled Italian banks to improve funding conditions on wholesale markets. Retail funding is also on the rise. The assets of Italian banks, in the meantime, increased further. However, the offering of credit is still hindered by the weakness of internal demand and by the restrictive criteria of the offering. The cost of credit contracted but remains above the average of the Eurozone.

According to the assessments released by Assiom Forex, in the third quarter of 2013, the flow of new bad loans compared to loans made by Italian banks stopped increasing for the first time since 2011. In October and November, the exposure of banks with debtors who were labeled non-performing for the first time decreased by 16% compared to the same period in 2012. TIER 1 capital increased from 10% to 10.6%, and the Bank of Italy intends to continue to encourage such action, with the aim of strengthening the levels of coverage.

In 2013, the requirements of the state sector increased dramatically, as a result of various extraordinary factors which affected debt, but not the deficit of the Public Administration, which, according to estimates of the Bank of Italy, remained on the threshold of 3% of GDP, despite the further reduction in the latter. The debt/GDP ratio increased by almost six percentage points, especially as a result of the measure concerning the Public Administrations' trade payables, arriving close to the level estimated in the Draft Budgetary Plan 2014.

According to ISTAT, in the last quarter of 2013, GDP increased by 0.1% compared to the prior quarter, although, in December, production and loans to companies contracted. Despite the fact that signs of uncertainty remain about the prospects of growth, according to the Bank of Italy, in the two-year period 2014-2015, GDP is expected to increase by 0.7% in 2014 and by 1.0% in 2015.

The National Health System in Italy in 2013 and Forecasts for 2014

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

Legislative Decree 78/2010, amended and converted into Law 122/2010, introduced certain modifications both in terms of the resources planning for the National Health Service and the repayment plans.
Legislative Decree 98/2011 established levels of funding for the National Health Service for the two-year period 2013-2014 and, finally, Legislative Decree 95/2012, on the so-called spending review, established reductions in expenditure for 2013 and 2014. Both of the decrees mentioned introduced new measures to cut health care expenditures, leading to corresponding reductions in ordinary state funding, of an amount equal to the estimated effects of the spending cuts.

Law 228 of December 24, 2012 (Stability Law 2013) ordered a reduction of the level of requirements of the National Health Service and related funding, for the years 2013 and 2014.

Law 147 of December 27, 2013 (Stability Law 2014) ordered a further reduction in the level of funding of the National Health Service, for the two years 2015 and 2016.

The level of funding of the National Health Service, which the State usually provides, thus amounts to €109.9 billion for 2014 and €113.5 billion for 2015.

Health care expenditures for 2013, according to the first available estimates, would put the amount at approximately €111.1 billion compared to €111.0 billion in 2012 (according to Istat).
In 2013, funding set aside for current expenditures by the National Health Service, leaving aside the funds actually received from the various bodies of the National Health Service and transfers from the regions, amounted to €107.0 billion.
The health care deficit for 2013, considering State funding alone, would be approximately €4.1 billion.

Legislative Decree 35/2013, amended and converted into Law 64/2013, and Legislative Decree 102/2013 made €27 billion available to the Public Administrations for the payment of its outstanding payables. During 2013, €21.6 billion was paid, of which €6.7 billion relates to health care receivables. With regard to health care receivables, another €9 billion was set aside for 2014 of which €2.5 billion was already paid in 2013.

Even after the new "federal health" rules were announced, the main tool ensuring that economic balance will be restored to the sector is that, from now on, regions reporting significant deficits will be obliged to adopt repayment plans. In fact, the new regulations and, more particularly, those concerning standard costs, do not introduce any changes to the current framework regulating funding for the sector and the sharing of available resources among the regions.

By adopting repayment plans, regions are obliged to activate the maximum level of regional fiscal levers permitted by law, maneuvering the rate of IRPEF in order to raise additional resources to cover the deficit resulting from health care management.

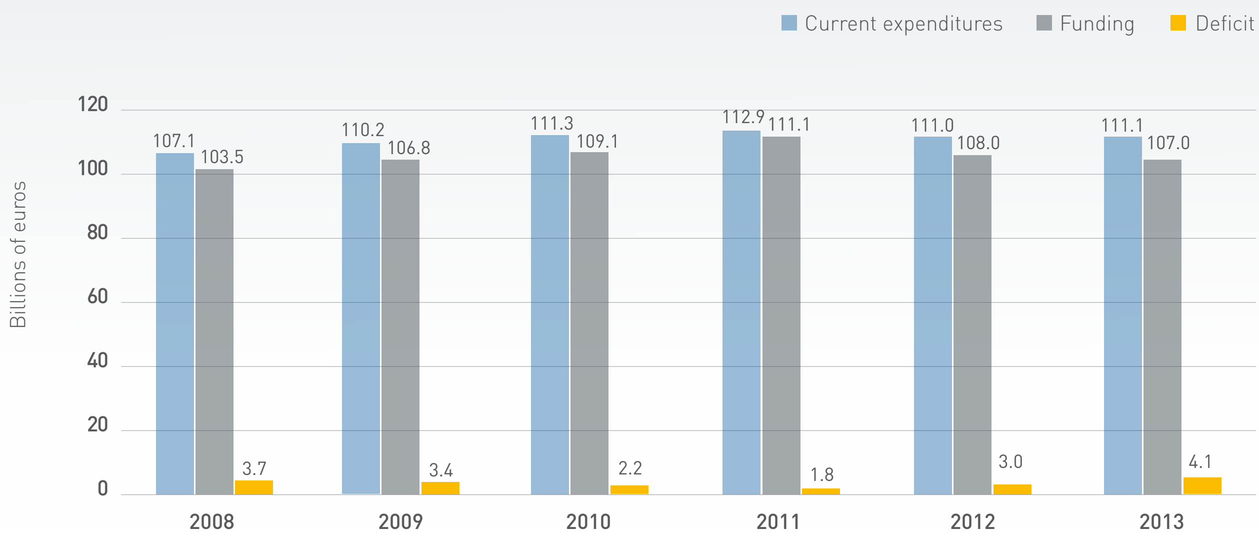
Currently, 8 of the 20 regions are committed to this procedure. The regions of Lazio, Abruzzi, Molise, Campania and Sicily – involved since 2007 and which, since the structural causes of the imbalance have not yet been removed, have had to extend their commitment – are now joined by Calabria, Piedmont and Puglia.

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

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

Legislative Decree 126 of October 31, 2013 "Urgent financial measures on behalf of the regions and local entities and localized actions in the territory" made reference to a preceding rule that allowed the ASLs (Local Health Service Agencies), through a quarterly resolution, the right to set up a payment plan to ensure the supply of essential health services. Observance of this plan could determine a limit on the possibility of seizure.

National Healthcare Fund



Evolution of Banca Farmafactoring's activities

During 2013 Farmafactoring was successfully transformed into a bank following the process begun in 2012. After the authorization was received from the Bank of Italy to operate as a bank, beginning July 3, 2013 the company changed its business purpose and was registered as Banca Farmafactoring in the National Register of Banks.

Also as of the date of July 3, 2013, the "Banca Farmafactoring" Group, headed by the new bank, was recorded in the Register of Banking Groups, pursuant to art. 64 of the Consolidated Law on Banking.

At the end of 2013, Marco Rabuffi, CEO of the Bank – whose presence in the company was a measure of the soundness and professionalism of company since it was formed, and thanks to whom important milestones were reached, not last of which is the transformation of the company into Banca Farmafactoring – has concluded that his commitment has now come to an end.
The board of directors, in taking note of his decision, has appointed his successor, Massimiliano Belingheri, who took over the position of CEO on December 24, 2013.
The board of directors of the Bank has unanimously expressed its deepest appreciation to Marco Rabuffi's for his contribution to the company's growth over the course of the years, congratulating him on the excellent results achieved under his direction, and happy that he will continue to give the Bank the contribution of his experience, staying on as a director of the board.
Equally, the board of directors offers Massimiliano Belingheri, a member of the board since December 2006, its heartfelt wishes for every success in his new position.

As noted earlier, the unfavorable situation which the Italian and international economies have experienced since 2011 continued into 2013.
Notwithstanding this difficult context, Banca Farmafactoring reported a profit of €48.9 million, despite the application of Legislative Decree 133 of November 30, 2013, which, for 2013, added another 8.5% to the IRES ordinary tax for banking and financial institutions and insurance companies so that the rate increased from 27.5% to 36%.

As a result, current income taxes increased by approximately €7.1 million, which led to a contraction in profit of the same amount.
If the additional IRES tax is not considered, the profit for 2013 would have been in line with 2012 which reported the highest earnings since the formation of Farmafactoring.

The business model of the Bank has remained unchanged in 2013. Its activities are focused on the management and sale of receivables due from the National Health Service and the Public Administration. In view of the context in which the Bank operates, of particular importance is the application of Legislative Decree 35/2013, amended and converted into Law 64/2013, and Legislative Decree 102/2013 which made €27 million available to the Public Administration to pay its outstanding payables, of which about €14 million is earmarked for Health Services.

On June 13, 2013, Bank of Italy was advised of Banca Farmafactoring's intention to use the ECAI ratings issued by the Dominion Bond Rating Service (DBRS) instead of Moody's Investor Service starting from the June 30, 2013 rating date. Banca Farmafactoring' board of directors approved this decision in its meeting on July 2, 2013.

The unsolicited rating of the Republic of Italy by DBRS is 'A low' and therefore the receivables exposure by the Bank from the Public Administration falls in Credit Quality Class 2, with a risk weight equal to 50%.
It was deemed that such value was a better representation – compared to a 100% risk weight in the Credit Quality Class 3 assigned by Moody's Investor Services – of the risks effectively attributable to the counterparties of the Public Administration, which currently represents more than 95% of the Bank's exposure.

The capital ratios of the Bank, i.e. Tier 1 Capital Ratio and Total Capital Ratio, are equal to 28.4% and 29%, respectively.
However, even if the weighting coefficients applied to the receivables from the Public Administration are kept at 100%, the capital adequacy ratios would be considerably higher than the required limits, at 17.7% for the Tier 1 Capital Ratio and 18.1% for the Total Capital Ratio.

The subsidiary Farmafactoring España S.A. bolstered its business in 2013 and purchased non-recourse receivables for €57 million compared to €8 million in 2012, notably exceeding forecasts in terms of both volumes brokered and profitability. Farmafactoring España S.A., in its third year of operations, has reported a profit.

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

Performance by Banca Farmafactoring in 2013 compared to 2012

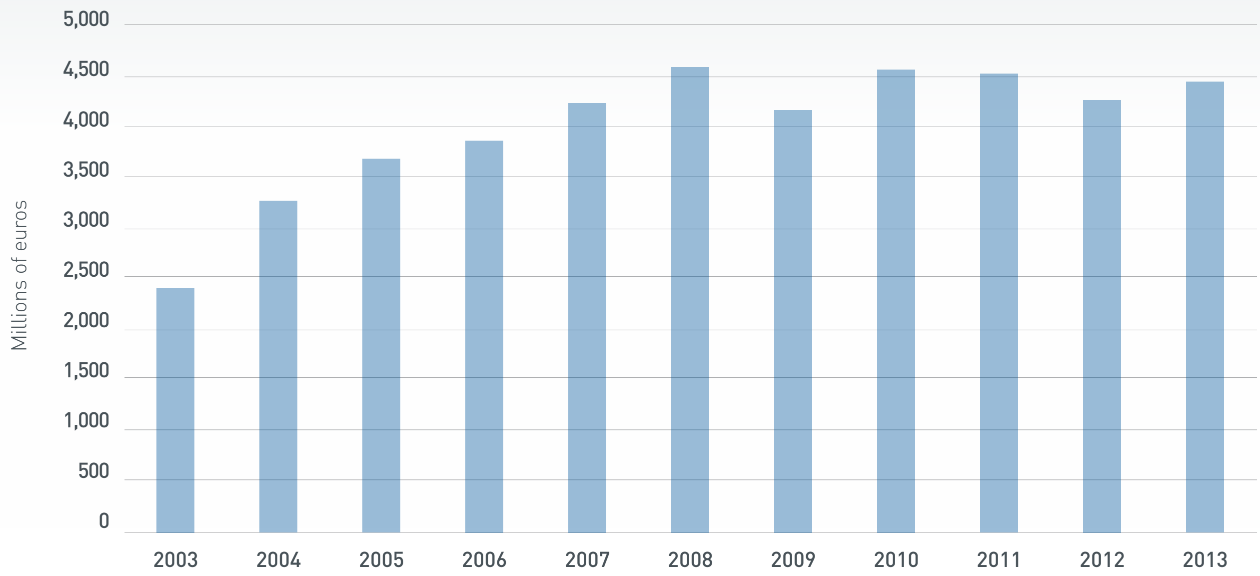
Overall volumes recorded by the Bank in 2013 were €4,473 million and higher than the €4,319 million reported in 2012; total collections amounted to €5,118 million compared to €4,637 million in the previous year.

In order to counterbalance a difficult macroeconomic picture and an even more complex competitive scenario, the Bank continued to develop commercial policies aimed at strengthening its relationships with existing customers and acquiring new clientele. These policies produced significant results including the proposal to purchase the receivables of the members of Farmindustria and Assobiomedica.

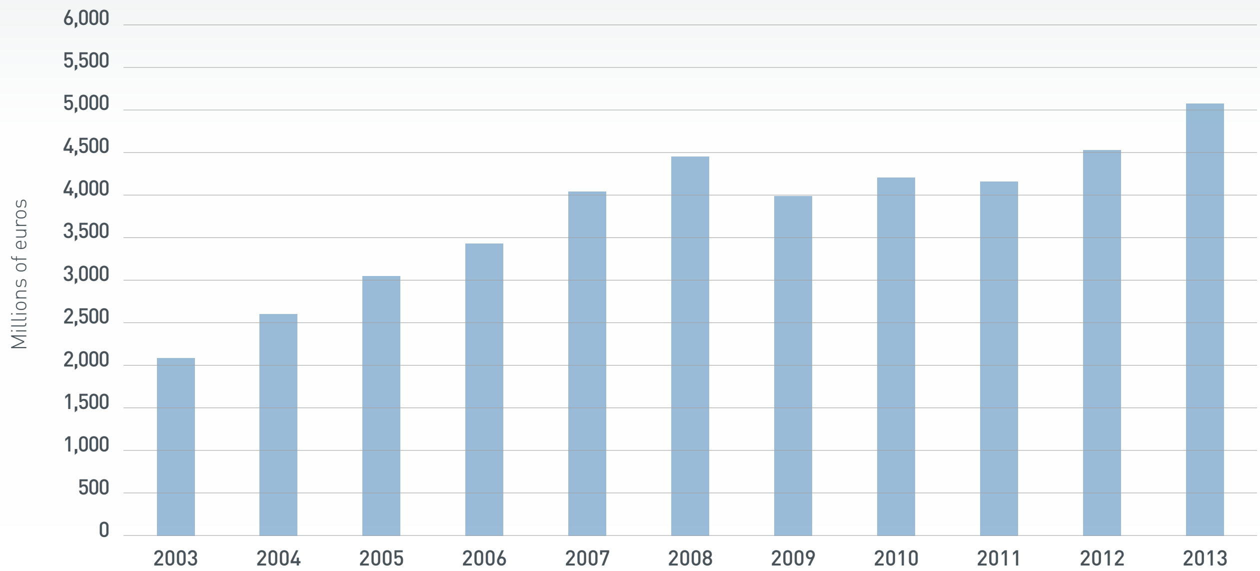
The purchase of non-recourse receivables totaled €1,716 million, which is higher than in 2012 thanks partly to the purchases from the above new clientele.

The following graphs represent total volumes and collections.

Total volumes

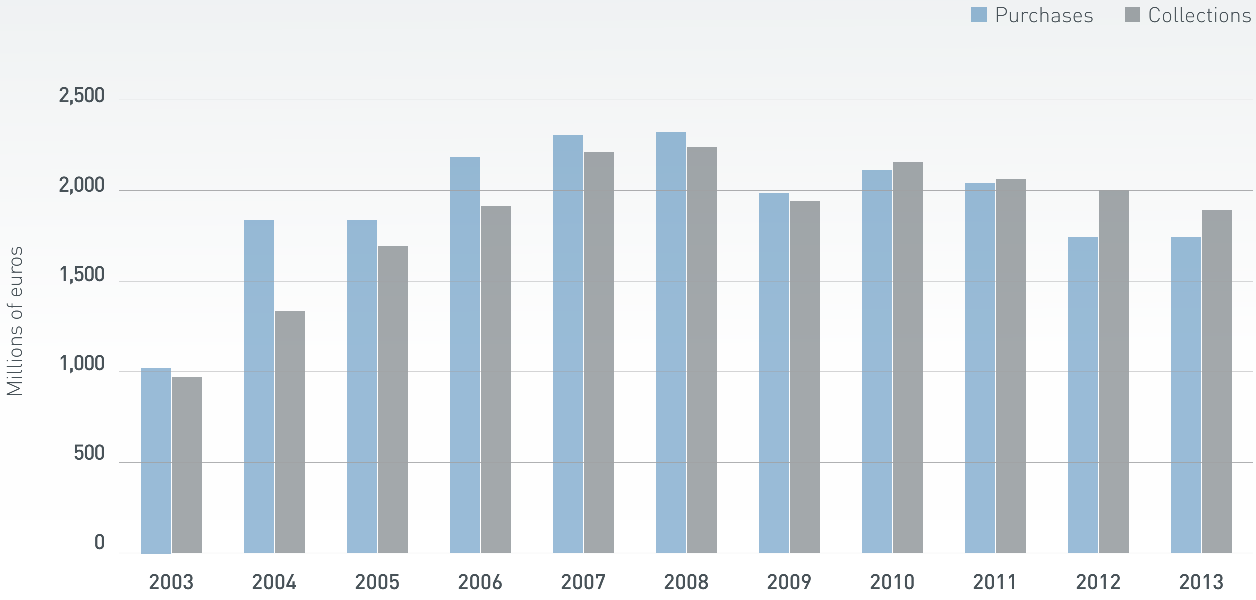


Total collections



Collections on non-recourse receivables amounted to €1,854 million and none of the collections came from regional agreements.

Non-recourse receivables - Purchases and Collections

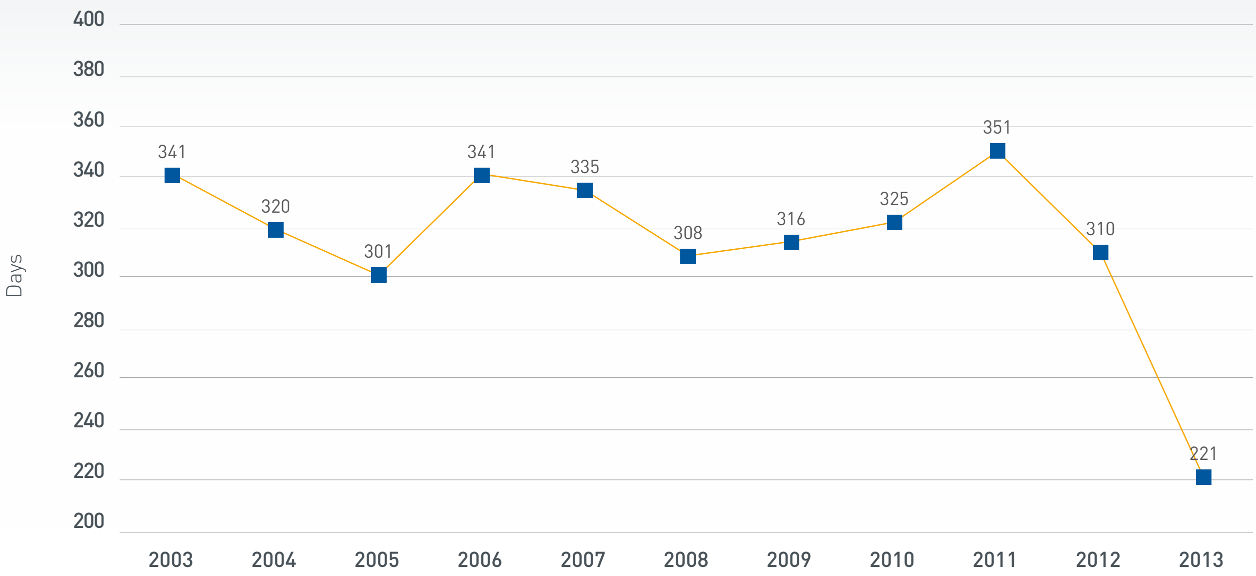


In 2013 the average number of days' delay in payment was 221 compared to 310 days in 2012.

The sharp decrease in this figure is principally due to the good trend in payments on the part of the entities and also because of the positive effects of Legislative Decree 35/2013 and Legislative Decree 102/2013.

Other factors influencing the reduction in number of days is the favorable outcome of legal actions, resolutions by the Commissioner *ad acta* for implementation of the health deficit repayment plan (Calabria Region) and above all by the settlement agreements with individual debtors (Campania, Emilia Romagna, Puglia and Sicily Regions).

Average Number of Days' Delay in Payment



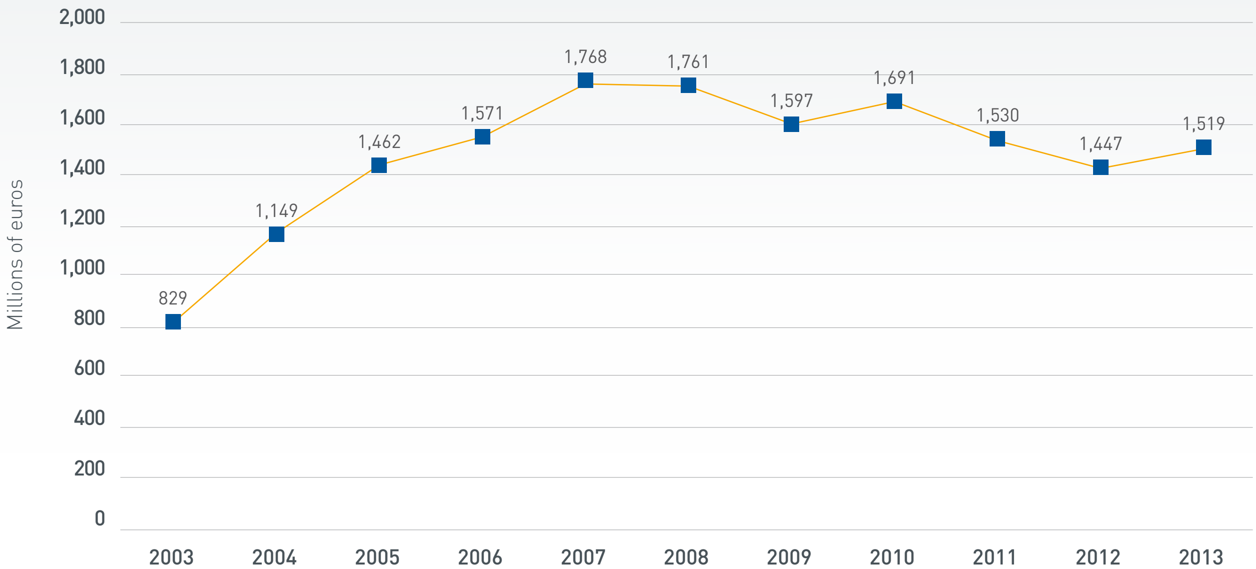
Despite this difficult setting, Banca Farmafactoring continues to act in the important role of facilitator in relations between the supplier companies and the public debtors.

The effects of the liquidity crisis which hit the financial markets in 2009 extended well into 2013, partly on account of the downgrade in the rating of the Republic of Italy by the major rating agencies.
In an analysis by the Bank of Italy, historical events indicate that in the most recent period the banks in Italy reduced loans and increased their portfolios of Italian public securities, whereas at the branches and affiliates of foreign banks there was a contraction in both loans and in the securities portfolio. All of this can be summed up by a general "tightening" of loans within the Italian banking system.

Despite lost growth and regardless of the still adverse economic context, the Bank has nevertheless managed to operate satisfactorily, overcoming the difficulties dictated by the contraction of liquidity in the credit system.

The aggregate credit lines extended to the Bank as of the end of December 2013, in fact, amounted to €1,519 million compared to €1,447 million in 2012.

Bank credit lines



Among the most important transactions concluded in 2013 are the following, in particular:

- conclusion in February of a transaction for the securitization of health care receivables of €70 million structured by Bayern LB for a period of 18 months, for the revolving phase;
- renewal for another 12 months, in October, of the transaction for the securitization of health care receivables of €150 million structured by Deutsche Bank;
- renewal for another 18 months, in December, of the transaction for the securitization of health care receivables of €100 million structured by Banca IMI;
- securing a pool loan organized by IntesaSanPaolo for a total of €255 million, in December. This transaction represents the most important pool loan taken out since the commencement of Farmafactoring's operations and is particularly significant since it was obtained after the start of its activities as a bank;
- obtaining bilateral committed credit lines for a total of €90 million from the largest national banking groups that have been doing business with Banca Farmafactoring for some time;
- start of a new relationship with Cassa Depositi e Prestiti for a total of €53 million, also obtained subsequent to the start of banking activities;
- acquisition of government securities in the first half of 2013 to protect against liquidity risk for a total nominal amount of €80 million, classified as available-for-sale (AFS).

Internal Control

During the last part of 2013, a complete review of the system of internal control was begun by the Bank under the general guidelines of "Prudential Supervision for banks– system of internal control, information systems and going concern". In particular, a "Gap Analysis" report and a Masterplan were produced and sent to the Bank of Italy by the deadline of January 31, 2014.
Pursuant to the provisions dictated by the Supervisory Authority, the organizational framework of the Internal Control System 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 are carried out by the same operating structures that execute the transactions, that is, as envisaged by the supporting 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 financing of terrorism, during 2013, the board of directors of the Bank resolved to separate the control activities of the second level carried out by the Risk Management, Compliance and Anti-Money Laundering Functions into two distinct Organizational Units: Risk Management and Anti-Money Laundering (AML) Organizational Unit (OU) and Compliance Organizational Unit (OU). In particular:
• the **Risk Management Function** monitors the controls over the management of risks, so as to take part in the definition of the methodologies used to measure risk, verifies that the limits assigned to the various operating functions are being observed and checks that the operations of the individual productive areas are consistent with the assigned risk and return objectives;
• the **Compliance Function** is responsible for controls over risks of non-conformity and controls aimed at verifying whether the activities of the bank and the relative processes are suitable for preventing the violation of internal and external rules;
• **Anti-Money Laundering Function** oversees conformity in matters of anti-money laundering and anti-terrorism so as to prevent the use of the financial system for purposes of money laundering the profit from criminal activities, and financing of terrorism.

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

Supervisory board 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 of the Supervisory Body in 2013 were principally directed toward testing the adequacy

BANCA FARMAFACTORING

of the 231 Organizational Model, controlling information flows, anti-money laundering issues and closely examining the audit reports.

Systems Development

In 2013, investments were made in Information & Communication Technologies for software applications, hardware and basic software to ensure the availability, continuity, performance and security of the systems (see Legislative Decree 196 of June 30, 2003, as amended, and the international standards ISO/IEC 27001:2005 - ISO/IEC 27002:2007).

In particular, the following main projects were implemented:

• activation of CSE (Consorzi Servizi Bancari) systems for the management of banking activities and their integration with the factoring, general ledger and treasury accounting systems for the management of personal data, payments and regulatory reporting;

• update of the software systems for the management of regulatory accounting for the Bank of Italy, and management of the Single Electronic Archive which became necessary as a result of the company's transformation into a bank;

• activation of the CSE systems for the management of related parties and their integration with the factoring and general ledger systems;

• activation of new physical and logical system servers and new systems for communication and safety of the production sites, and disaster recovery;

• introduction of an assessment on the systems and on operational continuity following the new Bank of Italy regulations that came into effect in July (new regulations 15th edition of Circular 263) and production of a gap analysis report;

• design of a new internet site following the company's transformation into a bank;

• update to conform 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);

• start-up of the new software system for general ledger accounting, cost accounting and purchases for Banca Farmafactoring. The process for the review of the general ledger accounting software was necessary also to render the accounting process more efficient and functional and achieve greater integration with regulatory reporting. From a Group view, in order to have a uniform chart of accounts, the new accounting applications were also extended to the subsidiary Farmafactoring España S.A.

Change in Staff Headcount

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

Category	2008	2009	2010	2011	2012	2013
Executives	4	6	6	5	7	7
Supervisors	16	22	24	29	31	34
Remaining staff	55	54	57	61	67	67
Total	**75**	**82**	**87**	**95**	**105**	**108**

Such increase in headcount was aimed mainly at reinforcing the management structure and adding highly qualified professional staff.

in € thousands

Item	2008	2009	2010	2011	2012	2013
Personnel costs	7,792	9,031	9,030	8,398	11,330	12,724

Personnel costs increased as a result of the full impact of the staff additions during the preceding year, new staff hired during the current year, as well as the effects of the renewal of the collective national labor contract.

Transactions with the Parent and Related Parties

FF Holding S.p.A. (as the consolidating company) and Banca Farmafactoring S.p.A. (as the consolidated company), after jointly opting to be taxed as a group, calculate the taxable profit on a consolidated basis pursuant to article 117 and subsequent articles of D.P.R. 917 of December 22, 1986. On June 11, 2013, the option to be taxed as a group for a three-year period was renewed by communication to the Tax Revenue Agency.

On March 28, 2104, the boards of directors of FF Holding S.p.A. and Banca Farmafactoring expressed their favorable opinion to the merger of the parent FF Holding S.p.A. into Banca Farmafactoring.

To this end, the outstanding €5 million loan due to the parent FF Holding S.p.A. last year was extinguished on May 3, 2013.
In December a loan, transacted on an arm's length basis, was extended to the parent FF Holding S.p.A. and used for €1.7 million.

The Bank also has factoring and mandate arrangements for the management and collection of receivables with shareholder companies, carried out on an arm's length basis.

There is a license agreement with the subsidiary Farmafactoring España S.A. The agreement covers the IT user rights for software licenses, the organizational methods and the communication lines of Banca Farmafactoring, as well as the assistance, maintenance and monitoring of the IT rights themselves. Royalties are paid as consideration and, for the year 2013, amounted to approximately Euros €250 thousand.
In 2013, loan facility agreements were signed with Farmafactoring España S.A. and are regulated on an arm's length basis. At December 31, 2013 the facilities were drawn down for €42.5 million.

On July 11, 2013, the board of directors of Farmafactoring España S.A. approved the Reporting Package containing the guidelines for the exchange of flows of information needed for the preparation of the consolidated financial statements and regulatory reporting.

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

Business Outlook

According to the planning guidelines approved by the board of directors, Banca Farmafactoring, as a group, will pursue the policy undertaken in past years so that its business will not be restricted solely to the management of credit deriving from the supply of pharmaceuticals or diagnostic products but will be extended to other merchandise sectors and services supplied to the Public Administration in general.

As a result of obtaining the banking license, moreover, in 2014, Banca Farmafactoring intends to develop new typical banking activities, such as discounting ECB securities and e-MID operations, which require a further strengthening of the Bank's staff.

Farmafactoring España S.A. aims to cement relationships with its already existing clients and further grow the activities surrounding the purchase of non-recourse receivables, which has already increased significantly during 2013, partly through proposals made to trade associations patterned after the model used in Italy.

The most important actions that will be necessary to accomplish the above purposes are:
- the structuring of new forms of financing to support the business;
- the building up of the workforce and the organization.

Accounting Principles

General principles

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

Structure of the IAS/IFRS financial statements

The financial statements conform to the provisions of Bank of Italy Circular 262 of December 22, 2005 – 2nd update – *"The Financial Statements of Banks: layout and preparation"*.

These financial statements consist of:
- report on operations
- balance sheet
- income statement
- statement of comprehensive income
- statement of cash flows
- statement of changes in equity
- notes to the financial statements

Reclassified Balance Sheet

(in € thousands

Item	12.31.2013	12.31.2012	Change
Assets			
Cash and cash balances	1	2	(1)
Financial assets held for trading	5	0	5
Available-for-sale financial assets	82,015	23	81,992
Due from banks	116,493	101,269	15,224
Receivables and loans	1,160,174	1,240,400	(80,226)
Investments	6,294	6,294	0
Property, plant and equipment	12,723	13,295	(573)
Intangible assets	1,122	1,298	(176)
Tax assets	39,319	22,278	17,041
Other assets	15,147	14,667	479
Total Assets	**1,433,293**	**1,399,527**	**33,765**
Liabilities and Equity			
Due to banks	804,451	737,000	67,451
Due to customers	324,287	354,735	(30,448)
Financial liabilities held for trading	548	2,244	(1,696)
Tax liabilities	47,011	40,609	6,402
Other liabilities	18,449	22,251	(3,802)
Employee severance indemnities	705	696	9
Provisions for risks and charges	3,237	3,123	114
Equity	185,714	182,419	3,295
Profit for the year	48,890	56,449	(7,559)
Total Liabilities and Equity	**1,433,293**	**1,399,527**	**33,765**

Reclassified Income Statement

in € thousands

Item	2013	2012	Change
Interest income	152,739	151,102	1,636
Interest expenses	(53,713)	(49,963)	(3,750)
Net interest margin	**99,026**	**101,139**	**(2,114)**
Net fee and commission income	**9,404**	**9,319**	**85**
Gains/losses on trading	1,701	(1,721)	3,422
Operating income	**110,131**	**108,738**	**1,393**
Impairment losses/reversals on financial assets	(1,136)	462	(1,598)
Administrative expenses	(28,823)	(26,118)	(2,705)
Net adjustments to/ writebacks on property, plant and equipment and intangible assets	(1,770)	(1,754)	(16)
Net provisions for risks and charges	(754)	(424)	(330)
Other operating income (expenses)	6,859	4,874	1,985
Profit before income taxes from continuing operations	**84,508**	**85,778**	**(1,270)**
Income taxes - ordinary rate	(28,508)	(29,329)	821
Profit for the year before additional IRES tax	**56,000**	**56,449**	**(449)**
Income taxes - additional IRES taxes 2013	(7,110)		(7,110)
Profit for the year	**48,890**	**56,449**	**(7,559)**

Comments on the Reclassified Balance Sheet

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

Available-for-sale financial assets

in € thousands

Item	12.31.2013	12.31.2012	Change
Government securities	81,992	0	81,992
Investments	23	23	0
Total	**82,015**	**23**	**81,992**

During the first half of 2013, to protect against liquidity risk, three government securities were purchased for a nominal amount of €80 million.

Such securities were classified in the available-for-sale portfolio and therefore recognized at amortized cost. The interest earned was recorded in the income statement according to the effective interest method.

At the end of the period, the value of the securities was compared to their fair value and the fair value adjustment was recognized in the balance sheet under valuation reserves.
At December 31, 2013, the fair value reserves on AFS securities amount to approximately €396 thousand.

Receivables

in € thousands

Item	12.31.2013	12.31.2012	Change
Due from banks	116,493	101,269	15,224
Receivables and loans	1,160,174	1,240,400	(80,226)
Of which due from financial institutions	*27,249*	*1,226*	*26,023*
Total	**1,276,667**	**1,341,669**	**(38,979)**

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

This line item includes:

• €398 thousand with Istituto Centrale delle Banche Popolari (ICBPI) which provides business processing payment and other services on behalf of Banca Farmafactoring and other banks.

• Approximately €750 thousand relating to the mandatory reserve deposit held by ICBPI since Banca Farmafactoring adheres indirectly to the system.

As for "Receivables and loans", details are as follows:

in € thousands

Item	12.31.2013	12.31.2012	Change
Assignors – loan account	2,244	1,201	1,043
Non-recourse receivables purchased	1,078,895	1,226,456	(147,561)
Receivables purchased below face amount	2,447	2,901	(455)
Receivables due from subsidiary/parent	44,200	4,500	39,700
Other receivables due from customers	5,140	4,116	1,024
Receivables due from financial institutions	27,249	1,226	26,023
Total	**1,160,174**	**1,240,400**	**(80,226)**

Non-recourse receivables purchased are measured at "amortized cost" based on the present value of estimated future cash flows.

The contraction in "Non-recourse receivables purchased" is due to the good trend in collections.

There are still two transactions outstanding for the securitization of health care receivables structured by Banca IMI and Deutsche Bank.
With regard to the securitization structured by Banca IMI, the receivables were sold to the vehicle company FF Finance S.r.l. but were not derecognized since the sale does not involve the transfer of the risks and rewards of ownership.
With regard to this transaction, the gross value of the receivables sold and not derecognized, outstanding at December 31, 2013, amounts to €116,332 thousand.

Similarly to the transaction with the vehicle FF Finance S.r.l., the securitization structured by Deutsche Bank receivables was also sold to the vehicle Farmafactoring SPV I S.r.l. and the assets were not derecognized. With regard to this transaction, the gross value of the receivables sold and not derecognized, outstanding at December 31, 2013, amounts to €136,001 thousand.

In the first quarter of 2013 another securitization transaction was structured by BayernLB AG. The receivables were sold to the vehicle Farmafactoring SPV II S.r.l. and the assets were not derecognized. With regard to this transaction, the gross value of the receivables sold and not derecognized, outstanding at December 31, 2013, amounts to €56,224 thousand.

"Receivables due from the subsidiary/parent" include the loan due from FF Holding S.p.A. for €1.7 million and the loan extended to Farmafactoring España S.A. for €42.5 million.

"Receivables due from financial institutions" consist of a receivable from the vehicle company FF Finance S.r.l. This amount refers to the securitization transaction with Banca IMI, in relation to which at December 31, 2013 Banca Farmafactoring holds securities for €100 million, repurchased in the second half of 2012.

The receivable position derives from the assets put in place during December with the aim of reducing the original amount from €200 million to €100 million by reimbursing the securities held by Banca Farmafactoring, sold in January 2014.

Credit quality

During 2013 the credit quality improved as follows: net non-performing loans went from €11,820 thousand (€14,102 thousand gross) in 2012 to €2,368 thousand (€4,635 thousand gross) in the current year, while the ratio of non-performing to the total outstanding fell from 0.96% in 2012 to 0.22% in 2013.

The Bank performed an analysis of the receivables portfolio in order to identify any impairment of its financial assets.

This analysis made it possible to distinguish between "performing" and "non-performing" receivables; included in the non-performing category are financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.
Performing receivables include receivables due from customers which, although past due more than 90 days, show no objective indication of impairment at an individual level.

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

In order to determine the Loss Given Default (LGD), the Bank assumed the value proposed by the "Basel Accord" for credits not covered by real guarantees from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.
The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs / AOs), corresponding to the credit rating for the particular region to which the debtors belong as assigned by the major rating agencies.

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

Starting from July 2012, the input parameters for the collective impairment model led, as a result of the continual downgrades of Italy and the consequent downgrade of the regions in the fourth quarter of 2011, to a higher PD calculation compared with the past and, consequently, to a collective impairment loss that is no longer negligible. In particular, at December 31, 2013, the impairment test indicated an impairment loss of approximately €2 million. Accordingly, a collective impairment charge of an additional approximate €217 thousand was recorded during the year.

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

To this end, net "Impaired assets" totaling €8,367 thousand correspond to the sum of:
• Past due
• Restructured
• Doubtful
• Non-performing

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

Past due
These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2013 are past due more than 90 days.
In particular, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor had not made any payment for any debt positions due to the bank for more than 90 days.

At December 31, 2013, total net past due receivables amount to €5,803 thousand (€6,427 thousand gross).

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

At December 31, 2013, the Bank does not have any positions classified as restructured receivables.

Doubtful
These are exposures with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.
Doubtful receivables also include so-called "objective" doubtful receivables, that is, exposures that present the following conditions:
• do not belong to the "central administrations and central banks", "territorial entities" and "public sector entities" portfolios;
• are past due on a continuing basis more than 270 days;
• the total amount of past due receivables represents a portion equal to at least 10% of the entire exposure.

At December 31, 2013, total net doubtful receivables amount to €196 thousand and consist solely of "objective" doubtful receivables.

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

Net non-performing exposures compared to December 31, 2012 decreased from approximately €11.8 million to approximately €2.4 million due to payments received from Fondazione Centro San Raffaele del Monte Tabor in liquidation and admitted to the procedure for the composition of

creditors. The payments made in 2013 were for the first and second distribution for a total of €9.6 million. Since the position was not written down, these payments did not give rise to a reversal of an impairment loss.
Net non-performing exposures at December 31, 2013 amounting to €2.4 million correspond to the remaining balance due from the debtor Fondazione Centro San Raffaele del Monte Tabor in liquidation and admitted to the procedure for the composition of creditors by Decree of the Court of Milan on October 28, 2011.

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

With regard to the percentages of recovery established by the creditor plan and as a result of the recognition of the receivables for late interest, which were already completely written off by the relative provision account, no impairment charge was recorded.

In 2013 another debtor and assignor were considered non-performing for an amount of approximately €600 thousand which has been completely written off during the year.

The other non-performing positions for €2,216 thousand were completely off against the provision account and their net book value is now zero.

The composition of impaired assets at December 31, 2013 and December 31, 2012 is presented below:

in € thousands

	12.31.2013			12.31.2012		
Type	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Non-performing	**4,635**	**(2,267)**	**2,368**	**14,102**	**(2,282)**	**11,820**
Exposure with assignors	258	(258)	0	0	0	0
Exposure with assigned debtors	4,378	(2,009)	2,368	14,102	(2,282)	11,820
Doubtful	**196**	**(0)**	**196**	**2,898**	**(4)**	**2,894**
Exposure with assignors	0	0	0	0	0	0
Exposure with assigned debtors	196	(0)	196	2,898	(4)	2,894
Restructured	**0**	**0**	**0**	**0**	**0**	**0**
Exposure with assignors	0	0	0	0	0	0
Exposure with assigned debtors	0	0	0	0	0	0
Past due	**6,427**	**(625)**	**5,803**	**8,273**	**(12)**	**8,261**
Exposure with assignors	0	0	0	0	0	0
Exposure with assigned debtors	6,427	(625)	5,803	8,273	(12)	8,261
Total	**11,259**	**(2,892)**	**8,367**	**25,273**	**(2,298)**	**22,975**

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

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

in € thousands

	12.31.2013			12.31.2012		
Type	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Impaired exposures	11,001	(2,634)	8,367	25,273	(2,297)	22,975
Performing exposures	1,074,948	(1,973)	1,072,975	1,208,099	(1,717)	1,206,382
Total	**1,085,949**	**(4,607)**	**1,081,342**	**1,233,372**	**(4,014)**	**1,229,357**

Investments

Investments refer to the equity investment in the company Farmafactoring España S.A., a wholly-owned subsidiary of Banca Farmafactoring.
The value of the investment is €6,294 thousand and 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 2013, making non-recourse purchases for €57.3 million compared to €7.7 million in 2012. Credit management services begun last year continued into the current year with the aim of "covering" a specific segment of the Spanish market of health care receivables factoring, replicating the elements of the Italian operating model.

The ordinary shareholders' meeting of Farmafactoring España held on March 20, 2014 approved the financial statements at December 31, 2013. Thanks to higher volumes brokered, the subsidiary reported its first earnings since the formation of the company, in the amount of €22 thousand. The losses reported during the start-up phase are not considered permanent and therefore no impairment loss was recognized on the investment.

Deloitte S.L. was engaged for a voluntary audit and expressed an unqualified opinion on the financial statements of Farmafactoring España S.A., approved on March 20, 2014.

Property, plant and equipment

in € thousands

Item	12.31.2012	Net increase	Net decrease	12.31.2013	% of total
Buildings	7,888	108	(362)	7,634	60.00%
Land	3,685	0	0	3,685	28.96%
Systems	412	146	(162)	396	3.11%
Furniture and fixtures	299	27	(80)	246	1.93%
Electronic machines	614	336	(434)	515	4.05%
Other property and equipment	397	9	(159)	247	1.94%
Total	**13,295**	**625**	**(1,198)**	**12,723**	**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 cost from that date.
The measurement at first-time adoption resulted in a revaluation of the buildings of about €4 million.
Among the largest net additions are "electronic machines" which mainly refer to hardware purchases.

Tax assets and liabilities

in € thousands

Item	12.31.2013	12.31.2012	Change
Tax assets	**39,319**	**22,278**	**17,041**
current	*37,724*	*20,052*	*17,672*
deferred	*1,595*	*2,226*	*(631)*
Tax liabilities	**47,011**	**40,609**	**6,713**
current	*35,792*	*29,272*	*6,520*
deferred	*11,219*	*11,337*	*(118)*

The increase in current tax assets arises mainly from the provisions of Legislative Decree 133 of November 20, 2103 which raised the advance payments for IRES and IRAP taxes for banks and financial companies to 128.5% for the current tax period to December 31, 2013.
On the same date a decree by the Ministry of the Economy and Finance, in implementing the provisions of paragraph 4 of article 15 of Decree Law 102 of August 31, 2013, has established a further increase of 1.5% in advance payments, bringing them to 130%.

The increase in current tax liabilities comes from the application of Legislative Decree 133 of November 30, 2013 which requires, for 2013, credit and financial entities and insurance companies to pay a further 8.5% over the ordinary IRES tax rate, which therefore rose from 27.5% to 36%.

Payables

in € thousands

Item	12.31.2013	12.31.2012	Change
Due to banks	804,451	737,000	67,451
Due to customers	324,287	354,735	(30,448)
Of which financial institutions	223,435	285,795	(62,360)
Total	**1,128,738**	**1,091,735**	**37,003**

"Due to banks" refers to loans obtained from the banking system.

"Due to financial institutions" refers to:
• the loan for €52.4 million received from International Factor Italia S.p.A. - IFITALIA, due February 28, 2014;
• the loan for €20.0 million received from Unicredit Factoring S.p.A., due June 13, 2014;
• the payable to Farmafactoring SPV I S.r.l. for €107.7 million relating to the aforementioned securitization structured by Deutsche Bank;
• the payable to Farmafactoring SPV II S.r.l. for €43.3 million relating to the aforementioned securitization structured by BayernLB AG.

Financial assets/liabilities held for trading

"Financial assets/liabilities held for trading" refer to derivative financial instruments used to hedge interest rate risk.
Derivative financial instruments are used to hedge fluctuations in market interest rates compared with the fixed rate implicit in non-recourse fees and commissions.
Derivatives are recognized as "Financial assets/liabilities held for trading" in accordance with IAS 39 although operationally they are considered as hedges of interest rate risk relating to the purchase of non-recourse receivables.
Derivatives are measured at fair value through profit or loss.

"Financial assets held for trading" amount to €5 thousand at December 31, 2013, whereas the balance at December 31, 2012 was nil. "Financial liabilities held for trading" total €548 thousand compared to €2,244 thousand at December 31, 2012.
Fair value changes were recognized in the income statement for a positive €1.7 million within "Gains/losses on trading".

Provisions for risks and charges

At December 31, 2013, "Provisions for risks and charges" amount to €3,237 thousand and mainly include provisions referring to personnel.

Provisions comprise €2,533 thousand for "Pension funds and similar obligations".

in € thousands

Item	12.31.2012	Increase	Decrease	12.31.2013
Long-term employee benefits	2,521	651	(640)	2,533
Total	**2,521**	**651**	**(640)**	**2,533**

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

Comments on the Reclassified Income Statement

The income statement for the year ended December 31, 2013 shows an after-tax profit for the year of €84,508 thousand compared to €85,778 thousand in 2012.

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

Operating income

Item	2013	2012	Change	Change %
Maturity commissions	95,601	96,705	(1,104)	(1.14%)
Interest on late payments	50,976	50,820	156	0.31%
Interest on securities	1,548	0	1,548	-
Other interest	4,614	3,577	1,037	28.98%
Total interest income	152,739	151,102	1,636	1.08%
Interest expenses	(53,713)	(49,963)	(3,750)	7.50%
Net fee and commission income	9,404	9,319	85	0.91%
Gains/losses on trading	1,701	(1,721)	3,422	(198.84%)
Operating income	110,131	108,738	1,393	1.28%

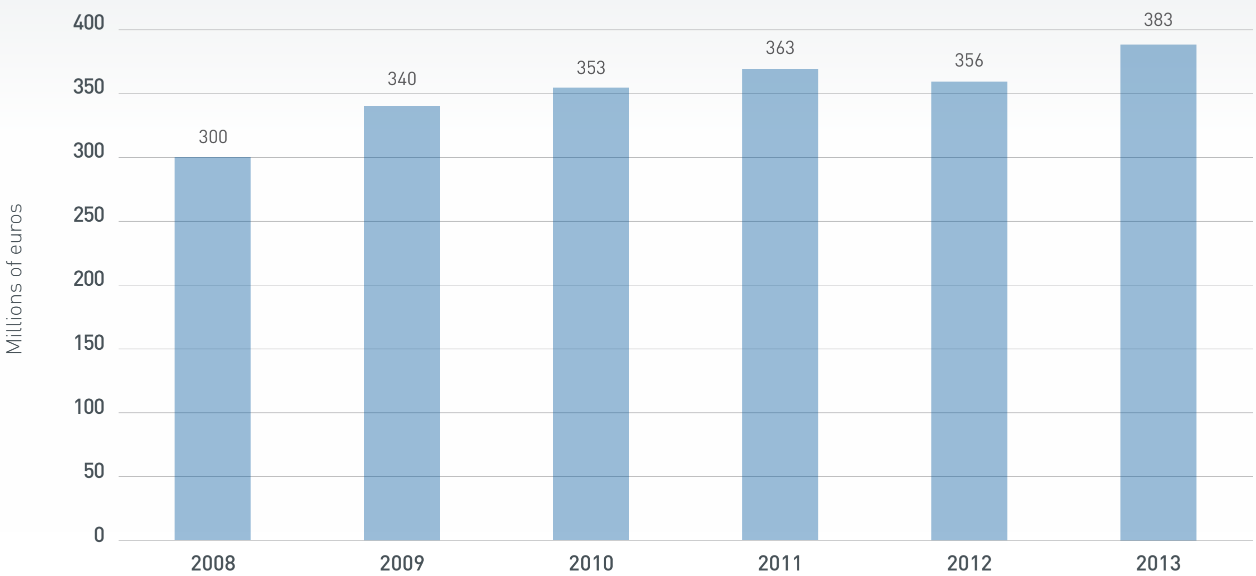
The recognition of "Maturity commissions" in the income statement reflects the effective interest from the application of the amortized cost criterion for measuring non-recourse receivables purchased, in accordance with IAS 39, as a result of which the income connected with such activity is recognized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

Maturity commissions referring to 2013 total €95.6 million. This figure is in line with that of 2012 and is principally due to the increase in rates implemented for the commissions applied starting in 2012.
Following the application of the amortized cost criterion and thanks to the high collections recorded, the 2013 commissions recorded in the income statement were recognized at the more favorable rates invoiced in the previous year.

"Interest on late payments", given the uncertainty of the date of collection and the amount that will be received, is recognized in the income statement when it is effectively received.
Collections of "Interest on late payments" in 2013 total about €51 million and do not include collections arising from regional agreements. The amount is in line with the previous year. In 2012, collections for interest on late payments included approximately €3.0 million stemming from regional agreements.

In 2013 "Interest on late payments" accrued on non-recourse receivables purchased amounts to approximately €383 million and has been fully written off by a charge of the same amount to the provision for interest on late payments.

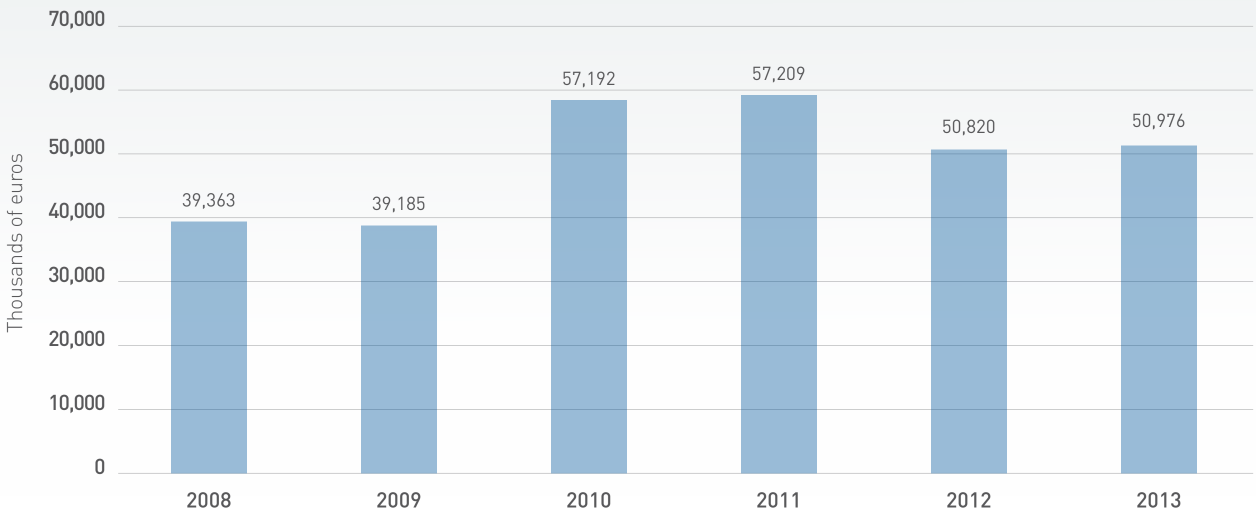
Provision for interest on late payments



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

Furthermore, the legal expenses already incurred for the recovery of receivables are expected to generate collections for the Bank of approximately €2.7 million over the next few years.

Collections of interest on late payments



"Interest on securities" refer to government securities purchased by the Bank during 2013 and classified in the portfolio AFS. The amortized cost method is used for the measurement of these securities and the interest is recorded in the income statement using the effective interest method.

"Other interest" income increased over 2012 by approximately €1 million and refers to interest income on the loan granted to the subsidiary Farmafactoring España S.A.

"Interest expenses" rose by approximately €3.8 million compared to 2012 and is principally due to the higher cost of debt.

Net fee and commission income

Net fee and commission income does not show any significant change from the prior year and derives from the following:

in € thousands

Item	2013	2012	Change	Change %
Fee and commission income	10,251	10,106	145	1.43%
Fee and commission expenses	(847)	(787)	(60)	7.63%
Net fee and commission income	**9,404**	**9,319**	**85**	**0.91%**

Gains/losses on trading

"Gains/losses on trading refer to the recognition of the fair value change on derivative instruments which in 2013 show a positive change of €1.7 million compared to the negative change of approximately €1.7 million in 2012.

Fair value changes on derivative instruments

in € thousands

Item	Carrying amount	Change
Financial assets held for trading		
Amount at 12/31/2012	0	
Amount at 12/31/2013	5	5
Financial liabilities held for trading		
Amount at 12/31/2012	2,244	
Amount at 12/31/2013	548	1,696
Net change in fair value recorded in gains/losses on trading		**1,701**

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

Going concern

In accordance with IAS 1, paragraph 24, Banca Farmafactoring 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 continual positive trend.
The data can be summarized as follows:
- trend of increasing Regulatory Capital;
- 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	2013	2012	2011
Net interest income	99.0	101.1	68.7
Operating income	110.1	108.7	79.9
EBTDA	88.2	87.5	61.5
Profit for the year	**48.9**	**56.4**	**40.2**
R.O.E. *(Return On Equity)* (%)	**26.3%**	**30.9%**	**24.9%**
Operating income / Non-recourse volumes (%)	6.4%	6.4%	3.9%
Interest expenses / Maturity commissions (%)	54.4%	53.4%	86.0%
Net interest income / Interest income and similar income (%)	64.8%	66.9%	55.1%
Non-performing (net of impairment losses) / Outstanding (%)	0.22%	0.96%	0.78%
Regulatory capital / Weighted outstanding (%) 1	34.9%	14.4%	22.4%
Financial leverage	7.7	7.7	10.3
Equity	**234.6**	**238.9**	**202.0**
Regulatory Capital	**186.9**	**177.7**	**175.0**

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

The increase in Regulatory Capital compared to the prior year is due to undistributed earnings and the controlling investment in Farmafactoring España S.A. which, as a financial intermediary, had been deducted for 50% from Tier 1 and 50% from Tier 2.
As a bank, parent of the banking group which includes Farmafactoring España S.A., Banca Farmafactoring is no longer required to make this deduction, equal to approximately €6.3 million, from individual Regulatory Capital.

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

In terms of profit, it should be noted that the 2013 maturity commissions are in line with those recognized in the prior year due to the increase in the rate used for the commissions applied starting from 2012.
Consequently, there are no elements such as to compromise the going concern assumption

Prospective review
The considerations that came before are borne out by the Budget 2014, approved by the board of directors on January 24, 2014, from which it can be seen, in prospective terms, that there are good expectations from both the standpoint of turnover and earnings, assuming a substantial stability in funding, which is confirmed in line with 2013.

The Bank is currently in the process of drawing up its three year Business Plan 2014-2017.

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.

As far as its particular financial structure is concerned, represented by bank credit lines adequately divided between uncommitted and committed, with the latter being higher and representing approximately 75% of total funding, the Bank has designed an internal risk-based monitoring system which, by means of stress scenarios, provides for the possibility of activating a series of measures in case of strong pressures or contingency situations. Such measures vary according to the type of potential scenario and their goal is to keep the financial position in equilibrium through the use of different levers such as the liquidity reserve, lending plans and actions directed across the territory.
The Bank meets its working capital requirements through the use of short-term financial credit lines and its own equity and the cash flows generated during the period. At the same time, estimated lending requirements are met in the medium term with structured finance operations and bilateral committed financing transactions and financing through bank pools. The recent authorization from Bank of Italy to commence banking activities will allow the Bank greater access to various sources of funding.

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 in the crediting of sums made available by the entities in the National Health System and the Public Administration.

In view of the aforementioned considerations associated with the historical and prospective review of the future 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, has drawn up these financial statements under such assumption.

Risk management and compliance with prudential supervision regulations

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

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

These laws include the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of 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, during the course of the year, with the emanation of the execution measures, contained in the regulatory technical standard and implementing technical standard, adopted by the European Commission under the proposal by the European Banking Authority (EBA).

The regulation applicable at December 31, 2013 is based on three pillars.

<u>Pillar 1 – Capital requirements to meet typical risks associated with financial activities</u>

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

Regulatory Capital

Regulatory capital represents 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.

Banca Farmafactoring 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.

Regulatory capital is composed of Tier 1 Capital plus Tier 2 Capital, net of prudential filters and deductions.
Compliance with capital adequacy limits, for the Tier 1 Capital Ratio and the Total Capital Ratio is constantly monitored by the competent corporate bodies.
The Tier 1 Capital Ratio is the ratio of Tier 1 capital to the amount of Risk-Weighted Assets.
The Total Capital Ratio is the ratio of regulatory capital to the amount of Risk-Weighted Assets.

Banca Farmafactoring's total exposure to risks at December 31, 2013, in relation to its business, is adequate according to the level of capitalization and the profile of risk identified.
The regulatory capital ratios are 28.4% for the Tier 1 Capital Ratio and 29.0% for the Total Capital Ratio.

in € millions, unless otherwise indicated

Details	Total 12.31.2013	Total 12.31.2012
Tier 1 capital	182.9	177.0
Tier 2 capital	4.0	0.7
Regulatory Capital	**186.9**	**177.7**
Risk-weighted assets	643.3	1.559.8
Tier 1 Capital Ratio (%)	*28.4%*	*11.4%*
Total Capital Ratio (%)	*29.0%*	*11.4%*

The increase in Regulatory Capital compared to the prior year is due to both undistributed earnings and the controlling investment in Farmafactoring España S.A. which, as a financial intermediary, had been deducted for 50% from Tier 1 and 50% from Tier 2.

As a bank, parent of the banking group which includes Farmafactoring España S.A., Banca Farmafactoring is no longer required to make this deduction, equal to approximately €6.3 million, from individual Regulatory Capital.

The reduction in risk-weighted assets compared to the prior year is mainly attributable to the decision taken by Banca Farmafactoring to change the ECAI ratings agency to Dominion Bond Rating Service (DBRS) and replace Moody's Investor Service starting from the June 2013 rating date.

The unsolicited rating assigned to the Republic of Italy by DBRS is "A low" and therefore the exposures due from the Public Administration fall into Credit Quality Class 2, with a weighting equal to 50%.
It was believed that this value was more representative – compared to a weighting of 100% for Class 3 fixed by Moody's Investor Services – of the effective risks attributable to the counterparties of the Public Administration.

Furthermore, in computing the risk-weighted assets, the individual capital requirements to meet the counterparty, market and operational credit risks are reduced by 25% as set out in Bank of Italy Circular 263, which permits this reduction for banks belonging to a banking group.
Even if the receivables from the Public Administration are weighted at 100%, the banking regulatory ratios would be 17.7% for the Tier 1 Capital Ratio and 18.1% for the Total Capital Ratio.

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – *"The Financial Statements of Banks: layout and preparation"*, and subsequent updates, the amount of risk-weighted assets is determined as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).
In the previous year, the amount of risk-weighted assets was calculated as the product of the total of prudential capital requirements and 16.67 (the inverse of the minimum obligatory ratio equal to 6%, established for banks).

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

This Pillar requires banks to have control strategies and processes for determining the adequacy of current and future capital. It is the Regulatory Authority's responsibility to verify the reliability and accuracy of the relative results and, where necessary, to take the appropriate corrective actions.
The Bank presents the ICAAP summary by April 30, 2014 to Bank of Italy showing the updated risk management system for the determination of the adequacy of capital.

Pillar III – Disclosure to the public

By the date set for the publication of the annual 2013 financial statements, and at least once a year, the Bank publishes on its website www.bancafarmafactoring.it, information concerning activities carried out, risks assumed and methods employed (Bank of Italy Circular 263 of December 27, 2006 – 15th update - *"New prudential supervision regulations for banks"*.

Such information is discussed in greater detail in the Notes, 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

There are no significant events subsequent to the end of the year.

Motion for the Appropriation of Profit

Dear Shareholders,
The financial statements for the year ended December 31, 2013, which we submit for your approval, show a profit of €48,890,449 and the board motions for the appropriation of profit as follows:

Profit for the year	**48,890,449**
- 5% to the legal reserve	2,444,522
To the shareholders: €27.3 per share to each of the 1,700,000 shares	46,410,000
Retained earnings	**35,927**

After appropriation of the profit, the legal reserve will be equal to €21,448,652 and retained earnings will amount to €31,499,250.

The Chairman
of the Board of Directors
Salvatore Messina

02 FINANCIAL STATEMENTS AT DECEMBER 31, 2013

Balance Sheet

Assets	12.31.2013	12.31.2012
10. Cash and cash balances	1,152	2,175
20. Financial assets held for trading	4,877	0
40. Available-for-sale financial assets	82,015,308	23,492
60. Due from banks	116,493,105	101,268,657
70. Receivables and loans	1,160,174,325	1,240,400,434
100. Investments	6,293,900	6,293,900
110. Property, plant and equipment	12,722,636	13,295,356
120. Intangible assets	1,121,630	1,297,819
Of which:		
- goodwill	*0*	*0*
130. Tax assets	39,318,881	22,278,186
a) current	*37,723,801*	*20,052,400*
b) deferred	*1,595,080*	*2,225,786*
Of which convertible into tax credit Law 214/2011	*508,690*	*547,820*
150. Other assets	15,146,814	14,667,381
TOTAL ASSETS	**1,433,292,628**	**1,399,527,400**

in euros

Liabilities and Equity	12.31.2013	12.31.2012
10. Due to banks	804,451,120	737,000,000
20. Due to customers	324,286,847	354,734,974
40. Financial liabilities held for trading	547,608	2,243,875
80. Tax liabilities	47,011,304	40,609,452
a) current	*35,792,160*	*29,272,151*
b) deferred	*11,219,144*	*11,337,301*
100. Other liabilities	18,448,740	22,250,844
110. Employee severance indemnities	704,718	696,022
120. Provisions for risks and charges:	3,237,495	3,123,479
a) pension funds and similar obligations	*2,532,752*	*2,521,220*
b) other provisions	*704,743*	*602,259*
130. Valuation reserves	4,218,569	3,822,976
160. Reserves	50,595,778	47,696,497
180. Share capital	130,900,000	130,900,000
200. Profit for the year	48,890,449	56,449,281
TOTAL LIABILITIES AND EQUITY	**1,433,292,628**	**1,399,527,400**

Income Statement

in euros

Items		31.12.2013	31.12.2012
10.	Interest and similar income	152,738,715	151,102,428
20.	Interest and similar expenses	(53,712,897)	(49,963,081)
30.	**NET INTEREST MARGIN**	**99,025,818**	**101,139,347**
40.	Fee and commission income	10,250,695	10,106,030
50.	Fee and commission expenses	(846,678)	(786,671)
60.	**NET FEE AND COMMISSION INCOME**	**9,404,017**	**9,319,359**
80.	Gains/losses on trading	1,701,144	(1,720,981)
120.	**OPERATING INCOME**	**110,130,979**	**108,737,725**
130.	Impairment losses/reversals on:		
	a) receivables	*(1,136,173)*	*462,091*
140.	**NET PROFIT FROM BANKING ACTIVITIES**	**108,994,806**	**109,199,816**
150.	Administrative expenses:		
	a) personnel costs	*(12,723,657)*	*(11,329,584)*
	b) other administrative expenses	*(16,098,909)*	*(14,788,350)*
160.	Net provisions for risks and charges	(753,617)	(423,754)
170.	Net adjustments to/writebacks on property, plant and equipment	(1,197,746)	(1,287,483)
180.	Net adjustments to/writebacks on intangible assets	(571,938)	(466,344)
190.	Other operating income/expenses	6,858,947	4,873,659
200.	**OPERATING EXPENSES**	**(24,486,920)**	**(23,421,856)**
250.	**PROFIT BEFORE TAX FROM CONTINUING OPERATIONS**	**84,507,886**	**85,777,960**
260.	Income taxes on profit from continuing operations	(35,617,437)	(29,328,679)
270.	**PROFIT AFTER TAX FROM CONTINUING OPERATIONS**	**48,890,449**	**56,449,281**
290.	**PROFIT FOR THE YEAR**	**48,890,449**	**56,449,281**

Statement of Comprehensive Income

in euros

Items		2013	2012
10.	**Profit for the year**	**48,890,449**	**56,449,281**
	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	(764)	
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, net of tax		
70.	Hedges of foreign investments		
80.	Exchange differences		
90.	Cash flow hedges		
100.	Available-for-sale financial assets	396,357	
110.	Non-currents assets classified as held for sale		
120.	Portion of valuation reserves from investments accounted for using the equity method:		
130.	**Total Other comprehensive income, net of tax**	395,593	
140.	**Comprehensive Income (Items 10+130)**	**49,286,042**	**56,449,281**

Statement of Changes in Equity

For the year ended December 31, 2013

	Opening balance 12.31.2012	Adjustm. to opening balance	Opening balance 01.01.2013	Appropriation of prior year profit		Change in equity during the year						Compre-hensive income year 2013	Equity 12.31.2013
							Equity transactions						
				Riserves	Dividends and other appropriat.	Change in reserves	New shares issue	Purchase of treasury shares	Payment of extraord. dividends	Change in equity instrum.	Other changes		
Share capital	130,900,000		130,900,000										130,900,000
Share premium													
Reserves													
a) income reserves	47,696,497		47,696,497	2,899,281									50,595,778
b) other reserves													
Valuation reserves	3,822,976		3,822,976			395,593							4,218,569
Equity instruments													
Treasury shares													
Profit for the year	56,449,281		56,449,281	(2,899,281)	(53,550,000)							48,890,449	48,890,449
Equity	**238,868,754**		**238,868,754**	**0**	**(53,550,000)**	**395,593**						**48,890,449**	**234,604,796**

in euros

For the year ended December 31, 2012

				Appropriation of prior year profit		Change in equity during the year							
							Equity transactions						
	Opening balance 12.31.2011	Adjustm. to opening balance	Opening balance 01.01.2012	Riserves	Dividends and other appropriat.	Change in reserves	New shares issue	Purchase of treasury shares	Payment of extraord. dividends	Change in equity instrum.	Other changes	Compre-hensive income year 2012	Equity 12.31.2012
Share capital	130,900,000		130,900,000										130,900,000
Share premium													
Reserves													
a) income reserves	27,046,029		27,046,029	20,650,468									47,696,497
b) other reserves													
Valuation reserves	3,822,976		3,822,976										3,822,976
Equity instruments													
Treasury shares													
Profit for the year	40,200,468		40,200,468	(20,650,468)	(19,550,000)							56,449,281	56,449,281
Equity	**201,969,473**		**201,969,473**	0	**(19,550,000)**							**56,449,281**	**238,868,754**

Statement of Cash Flows Indirect Method

in euros

	2013	2012
A. OPERATING ACTIVITIES		
1. Operating activities	**51,895,977**	**58,160,048**
- profit for the year (+/-)	48,890,449	56,449,281
- 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 (+/-)	1,136,173	(462,091)
- net adjustments to/writebacks on property, plant and equipment and intangible assets (+/-)	1,755,339	1,752,224
- net provisions and other expenses/revenues (+/-)	114,017	420,634
- non cashed net premiums (-)		
- other not collected income and expenses from insurance activities (-/+)		
- unpaid indirect taxes and duties (+)		
- net losses/reversals of disposal groups of assets held for sale, net of tax effect (+/-)		
- other changes (+/-)		
2. Cash flows from/used by financial assets	**35,255,740**	**(269,347,566)**
- financial assets held for trading	4,877	(322,885)
- financial assets at fair value through profit or loss		
- available-for-sale financial assets	81,596,222	0
- due from banks	15,224,446	32,490,787
- due from financial institutions	26,022,6690	0
- receivables and loans	(105,112,606)	(301,277,722)
- other assets	17,520,129	(687,746)
3. Cash flows from/used by financial liabilities	**37,915,170**	**(306,836,933)**
- due to banks	67,451,120	(380,385,426)
- due to financial institutions	(62,360,269)	45,788,280
- due to customers	31,912,142	13,230,797
- securities outstanding		
- financial liabilities held for trading	(1,696,267)	1,398,097
- financial liabilities at fair value through profit or loss		
- other liabilities	2,608,444	13,131,318
Net cash flows from/used in operating activities	***54,555,407***	***20,670,681***
B. INVESTING ACTIVITIES		
1. Cash flows from	**0**	**0**
- disposals of investments		
- dividends collected from investments		
- sales of financial assets held-to-maturity		
- sales of property, plant and equipment		
- sales of intangible assets		
- disposals of business segments		
2. Cash flows used in	**(1,006,430)**	**(1,120,510)**
- purchases of investments		
- purchases of financial assets held-to-maturity		
- purchases of property, plant and equipment	(610,682)	(490,125)
- purchases of intangible assets	(395,748)	(630,386)
- purchases of business segments		
Net cash flows from/used in investing activities	***(1,006,430)***	***(1,120,510)***
C. FINANCING ACTIVITIES		
- issues/purchases of treasury shares		
- issues/purchases of equity instruments		
- payment of dividends and other	(53,550,000)	(19,550,000)
Net cash flows from/used in financing activities	***(53,550,000)***	***(19,550,000)***
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,023)	171

Reconciliation

in euros

	12.31.2013	12.31.2012
Cash and cash equivalents at beginning of the year	2.175	2.004
Change in cash and cash equivalents from/used during the year	(1.023)	171
Cash and cash equivalents at end of the year	**1.152**	**2.175**

Notes to the Financial Statements

The notes are arranged as follows:

1) Part A – Accounting Policies
2) Part B – Balance Sheet
3) Part C – Income Statement
4) Part D – Comprehensive Income
5) Part E – Information on Risks and related Risk Management Policies
6) Part F – Equity
7) 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 preparation and the presentation of the financial statements with particular reference to the fundamental principle of substance over form and the concept of relevance or significance of the information.

Section 2 – Basis of preparation

As of July 3, 2013, Farmafactoring S.p.A. modified its business purpose and was registered as Banca Farmafactoring in the Register of Banks.
Starting from that date, the company is no longer registered in the general and special registers established by the Consolidated Law on Banking.
Again from the date of July 3, 2013, the Banca Farmafactoring Group, headed by the new Bank, was recorded in the Register of Banking Groups, pursuant to art. 64 of the Consolidated Law on Banking.
The separate financial statements at December 31, 2013 have therefore been prepared in accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – *"The Financial Statements of Banks: layout and preparation"*, and subsequent updates.
The financial statements include the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows, the notes to the financial statements and the report on operations.
The financial statements agree with the accounting records.
In conformity with art. 5, paragraph 2 of Legislative Decree 38 of February 28, 2005, the financial statements are expressed in euros, which is the functional currency.

The notes are prepared in thousands of euros, unless otherwise indicated, and present comparative figures for the prior year.
The components of the financial statements are measured in accordance with the general criteria of prudence, the going-concern concept and on the accrual basis.

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

• **Financial assets/liabilities held for trading**
Financial instruments hedging exposure to interest rate risks included in this line item are measured at fair value.
• **Available-for-sale financial assets**
Owned securities classified in available-for-sale financial assets are measured at fair value.
• **Receivables**
Non-recourse receivables purchased are measured at "amortized cost" whereas other receivables are stated at their face value.
• **Property, plant and equipment and intangible assets**
These assets are stated at cost.
• **Other receivables and other payables**
These are stated at their face value.

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

• **IAS 1**: the purpose of the amendments is to clarify the presentation of the components of other comprehensive income. In particular, the amendment requires that items in other comprehensive income that may be reclassified subsequently to the income statement, under certain conditions (sale, impairment), must be shown separately.

• **IAS 19**: no longer allows the deferral of actuarial gains and losses under the corridor method, now requiring their immediate recognition in comprehensive income for the year. The Bank performed the calculations for 2012 and the amounts were not considered significant, hence no changes were made retrospectively.

• **IFRS 13**: sets out in a single IFRS a framework for measuring fair value and provides a complete guideline on how to measure the fair value of financial and non-financial assets and liabilities.

• **IFRS 7**: requires further quantitative information about financial instruments that are offset.

Section 3 – Subsequent events

There have been no events or facts subsequent to the end of the reporting period such as to require an adjustment to the results of the financial statements for the year ended December 31, 2013.

In reference to the contents of Bank of Italy Circular 285 of December 17, 2013 – Section 11, Paragraph 2, last paragraph, wherein it is stated that "the banks may exclude unrealized gains or losses in any element of Own Funds relating to exposures with the central administrations classified in the "Available-for-sale" category of IAS 39 approved by the UE", and on the basis of the option allowed by Bollettino di Vigilanza no. 12 of December 2013, in the paragraph relating to "Regulation on Own Funds, the exercise of such option was approved by the board of directors of Banca Farmafactoring on January 24, 2014.

Accordingly, beginning January 1, 2014 and until the end of the transitional period, Banca Farmafactoring will exclude from Own Fund unrealized gains or losses relating to exposures with the central administrations.

Section 4 – Other matters

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

The preparation of the financial statements requires estimates and assumptions that 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.

The main categories that require the use of estimates can be summarized as follows:
- 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;
- use of estimation models for determining the fair value of financial instruments not listed in active markets;
- measurement of investments;
- measurement of employee benefit obligations and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

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

For additional detailed information on the composition and the relative amounts recognized in the line items where estimates are used, reference should be made to the specific sections of the notes.

Audit
The shareholders' meeting held on May 3, 2012 appointed "PricewaterhouseCoopers S.p.A." for the audit of the financial statements of the Company 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 AGGREGATES OF THE FINANCIAL STATEMENTS

Information is provided below on the main aggregates of the financial statements and the criteria for recognition, classification, measurement and derecognition.

A.2.1 Financial assets held for trading

Recognition criteria
Derivatives are initially recognized at the trade date at fair value.
The recognition value corresponds to the fair value of the instrument, not deriving from internal estimates but communicated by the counterparty of the same.

Classification criteria
Financial assets held for trading include financial instruments used to hedge fluctuations in market interest rates with regard to 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 criteria
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 on the market where available. Accordingly, considering that the inputs used for the measurement of financial assets held for trading are different from the quoted prices but observable directly or indirectly in the market, in accordance with Bank of Italy Circular 262, the fair value hierarchy is "Level 2".

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

A.2.2 Available-for-sale financial assets

Recognition and classification criteria

These are financial assets held for an indefinite period of time which are not classified as receivables, financial assets held-to-maturity or assets measured at fair value through profit or loss.
Money market instruments, other debt instruments and equity securities may be classified as available-for-sale financial assets which can, for any reason, such as liquidity requirements or changes in interest rates, in exchange rates or in the prices of equity securities, be sold.
Available-for-sale financial instruments recognized on this line are principally government securities and the investment in Nomisma S.p.A., since it is not subject to "significant influence".

Measurement criteria

Available-for-sale financial assets (except for investments in equity instruments that are not listed in active markets and whose fair value cannot be determined reliably, which are kept at cost) are measured at fair value.
The investment in Nomisma S.p.A. is accounted for at cost and tested for impairment.

Derecognition criteria

The investment is derecognized at the time of sale.

A.2.3 Receivables

Recognition and classification criteria

Non-recourse receivables:
a) non-recourse receivables purchased, with the transfer of substantially all the risks and rewards of ownership, are recognized initially 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.

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

Measurement criteria

Non-recourse receivables purchased 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, show no objective indication of impairment at an individual level.

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

In order to determine the Loss Given Default (LGD), the Bank assumed the value proposed by the "Basel Accord" for credits not covered by real guarantees from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.
The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs / AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong.

Under IAS 39, and for the purposes of an analytical evaluation, the Bank carried out an assessment of the financial assets classified in receivables in order to identify any impairment of individual positions.
Such non-performing receivables are measured by adjusting receivables to estimated realizable value by recognizing in the income statement any impairment losses determined on an individual basis which takes into account cash flows and estimated time to collection and any impairment reversals.
The impairment loss is reversed and the receivable is reinstated to its original carrying amount when the reasons for the impairment no longer exist.

Interest on late payments is recognized in the income statement at the time of actual collection.

Derecognition criteria
Receivables are derecognized when they are considered unrecoverable.
Receivables sold are derecognized only when the sale transfers all the risks and rewards relating to such receivables.
When, instead, the risks and rewards are retained, the receivables sold will continue to be recorded in the assets of the financial statements until, legally, ownership of the receivables is actually transferred.

A.2.4 Investments

Recognition and classification criteria
These consist of investments in which the Bank has control.
Specifically, this refers to the company Farmafactoring España S.A., a wholly-owned subsidiary recognized initially at cost. Cost is represented by the value of share capital subscribed to and the costs incurred for setting up the company.

Measurement criteria
The investment is measured at cost and is adjusted by any impairment in the carrying amount and recognized in the income statement.

Derecognition criteria
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.

A.2.5 Property, plant and equipment

Recognition and classification criteria

Property, plant and equipment include assets and buildings, plant, other machines and equipment held for use in the business by the Bank.
Property, plant and equipment are recognized initially at cost, including all directly attributable costs to bring the asset to use.
Ordinary maintenance costs are recorded directly in the income statement.

Measurement criteria

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.
Subsequent to initial recognition, the other property, plant and equipment were accounted for at cost less depreciation. Such assets are depreciated on a straight-line basis over the remaining estimated useful life.

Derecognition criteria

Property, plant and equipment are derecognized at the time of disposal or when the asset is permanently retired from use or when future economic benefits are not expected to derive from their disposal.

A.2.6 Intangible assets

Recognition and classification criteria

Intangible assets are recorded at cost, adjusted by any additional expenses, only if it is probable that the assets will generate future economic benefits and if the cost of the assets can be determined reliably.
If not, the costs of intangible assets are recognized in the income statement in the year incurred.
Intangible assets are basically represented by investments in new programs and software for use over more than one year.

Measurement criteria

Intangible assets are recognized at cost net of amortization calculated on a straight-line basis over their estimated useful lives.
At every closing date the assets are tested for impairment to estimate the recoverable amount whenever there is an indication that the carrying amount may be impaired.
Any impairment loss is recognized in the income statement and is represented by the difference between the carrying amount of the asset and the recoverable amount.

Derecognition criteria

Intangible assets are derecognized from the balance sheet at the time of disposal or when the asset is permanently retired from use.

A.2.7 Tax assets and liabilities

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 temporary taxable differences. Deferred tax assets correspond to the amount of income taxes recoverable in future years and refer to deductible temporary differences.
The tax amount of an asset or a liability is the value attributed to that asset or liability according to enacted tax legislation.
A deferred tax liability is recognized on all taxable temporary differences as set forth in IAS 12.
A deferred tax asset is recognized on all deductible temporary differences as set forth in IAS 12 only to the extent that it is probable that there will be future taxable income against which the deductible temporary difference can be utilized.

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

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

A.2.8 Payables

Classification criteria
Payables include all types of funding from banks and customers (deposits, current accounts and loans).

Recognition and measurement criteria
Payables essentially include exposure with banks and the residual amount payable to assignors.
Due to banks are recognized at the nominal amounts since they are generally due within 18 months.

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

A.2.9 Employee severance indemnities

Recognition and measurement criteria

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 Bank) is calculated by estimating the remaining service life of the employees, by individual person or homogeneous groups, on the basis of demographic assumptions:

• projecting the employee severance indemnity already accrued, on the basis of demographic assumptions, in order to estimate the time of termination of employment;

• discounting to present value, at the measurement date, the indemnity accrued to December 31, 2006 on the basis of financial assumptions.

IAS 19 revised no longer allows 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.

A.2.10 Provisions for risks and charges

Recognition and measurement criteria

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.

The 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 criteria

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

A.2.11 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;
• interest on late payments is calculated on non-recourse receivables purchased to the extent determined in accordance with existing laws.
Given the uncertainty of the date of collection and the amount that will be paid, receivables for interest on late payments referring to the year are entirely written off by setting up a specific provision that is deducted from the corresponding asset account.
The amounts recognized in the income statement represent the actual amount received during the year;
• commissions on receivables collection management 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;
- when the receivables are collected.

A.3 - TRANSFERS OF FINANCIAL ASSETS BETWEEN PORTFOLIOS

In 2013, as in 2012, 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 financial derivatives at fair value classified in "Level 2" in that the inputs used for measurement can be observed directly or indirectly and are not quoted prices in an active market.
At December 31, 2013, as in the preceding year, there are no Financial assets/liabilities measured at fair value at "Level 3" or changes during the period involving such assets/liabilities.

A.4.2 Valuation processes and sensibilities

These financial instruments are used to hedge fluctuations in the market interest rates, compared to the fixed rates used in the non-recourse commissions relating to purchases of non-recourse receivables.
At December 31, 2013, the carrying amount corresponds to the fair value of the instrument, not deriving from internal estimates but communicated by the counterparty of the same. The fair value change in these financial assets/liabilities from December 31, 2012 is recognized as a net gain or loss (+/-) on trading activities in the income statement.

A.4.3 Fair value hierarchy

In 2013, as in 2012, there were no transfers between Level 1, Level 2 and Level 3.

Quantitative information
All amounts are expressed in thousands of euros.

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities measured at fair value through profit or loss on a recurring basis: breakdown by fair value levels

Financial assets/liabilities measured at fair value through profit or loss on a recurring basis	12.31.2013			12.31.2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading		5				
2. Financial assets at fair value through profit or loss						
3. Available-for-sale financial assets	81,992					
4. Hedging derivative assets						
5. Property, plant and equipment						
6. Intangible assets						
Total	**81,992**	**5**				
1. Financial liabilities held for trading		548			2,244	
2. Financial liabilities at fair value through profit or loss						
3. Hedging derivative liabilities						
Total		**548**			**2,244**	

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

Assets and liabilities not measured at fair value or measured at fair value through profit or loss on a non-recurring basis	12.31.2013				12.31.2012			
	CA	L1	L2	L3	CA	L1	L2	L3
1. Financial assets held to maturity								
2. Due from banks	116,493			116,493	101,269			101,269
3. Receivables and loans	1,160,174			1,160,174	1,240,400			1,240,400
4. Property, plant and equipment held for investment purposes								
5. Non-current assets and disposal groups of assets held for sale								
Total	**1,276,667**			**1,276,667**	**1,341,669**			**1,341,669**
1. Due to banks	804,451			804,451	737,000			737,000
2. Due to customers	324,287			324,287	354,735			354,735
3. Securities outstanding								
4. Liabilities associated with assets held for sale								
Total	**1,128,738**			**1,128,738**	**1,091,735**			**1,091,735**

Key:
CA = Carrying Amount
L1 = Level 1: *fair value of an instrument using quoted prices in an active market.*
L2 = Level 2: *fair value of an instrument based on valuation models which use observable inputs, other than the quoted prices of a financial instrument in an active market.*
L3 = Level 3: *fair value of an instrument based on valuation models using inputs that are not observable on the market.*

A.5 - INFORMATION ON DAY ONE PROFIT/LOSS

In 2013, as in 2012, there were no reclassifications of financial assets.

At December 31, 2013, there are no financial assets measured at fair value at "Level 3", hence the market of financial instruments is not active and the inputs are not based on observable market data.

Part B - Balance Sheet

All amounts are expressed in thousands of euros.

ASSETS

Section 1 - Cash and cash balances - Item 10

€1 thousand

1.1 Breakdown of "Cash and cash balances"

Types/Underlyings	12.31.2013	12.31.2012
a) Cash	1	2
b) Demand deposits with Central Banks		
Total	**1**	**2**

Cash and cash balances are represented by the cash fund.
There are no significant changes compared to December 31, 2012.

Section 2 - Financial assets held for trading - Item 20

€5 thousand

Financial assets held for trading include financial instruments put in place to hedge interest rate risk.
At December 31, 2013 the amounts refer to financial derivatives issued by banks, classified in the fair value hierarchy as "Level 2".

2.1 Financial assets held for trading: product breakdown

Items/Amounts	12.31.2013			12.31.2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. FINANCIAL ASSETS						
1. Debt securities						
1.1 Structured						
1.2 Other						
2. Equity securities						
3. Units in investments funds						
4. Loans						
4.1 Reverse repos						
4.2 Other						
Total A						
B. DERIVATIVE INSTRUMENTS						
1. Financial derivatives						
1.1 Trading		5				
1.2 Related to fair value option						
1.3 Other						
2. Credit derivatives						
2.1 Trading						
2.2 Related to fair value option						
2.3 Other						
Total B		**5**				
Total (A+B)		**5**				

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

2.2 Financial assets held for trading: breakdown by debtors/issuers

Items/Amounts	12.31.2013	12.31.2012
A. FINANCIAL ASSETS		
1. Debt securities		
a) Governments and central banks		
b) Other public sector entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other public sector entities		
- insurance companies		
- financial companies		
- non-financial companies		
- other		
3. Units in investments funds		
4. Loans		
a) Governments and central banks		
b) Other public sector entities		
c) Banks		
d) Other issuers		
Total A		
B. DERIVATIVE INSTRUMENTS		
a) Banks	5	
b) Customers		
Total B	**5**	
Total	**5**	

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

€82,015 thousand

The amount mainly represents the value of three government securities purchased in the first half of 2013 to protect against liquidity risk for a total nominal amount of €80 million.

These securities are classified as available-for-sale and as such are measured at amortized cost and the interest calculated using the effective interest method is recognized in the income statement.

At the end of the year, the securities are compared to fair value and the difference is recorded in the balance sheet within valuation reserves.

These assets also include the investment of €23 thousand in the company Nomisma S.p.A. - Società di Studi Economici.

The main information about the investment is as follows:

Description	Carrying amount (in €)	No. of shares purchased	Nominal value per share (in €)	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, 2012

Head office	Bologna - Strada Maggiore n. 44
Share capital	€6,605,829.68 fully paid-in
Equity	5,371,313
Loss for the year	(393,925)

4.1 Available-for-sale financial assets: product breakdown

Items/Amounts	12.31.2013			12.31.2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities						
1.1 Structured securities						
1.2 Other	81,992					
2. Equity securities						
2.1 Measured at fair value						
2.2 Carried at cost			23			23
3. Units in investments funds						
4. Loans						
Total	**81,992**		**23**			**23**

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

Items/Amounts	12.31.2013	12.31.2012
1. Debt securities		
a) Governments and central banks	81,992	
b) Other public sector entities		
c) Banks		
d) Other issuers		
2. Equity securities		
a) Banks		
b) Other public sector entities		
- insurance companies		
- financial companies		
- non-financial companies	23	23
- other		
3. Units in investments funds		
4. Loans		
a) Governments and central banks		
b) Other public sector entities		
c) Banks		
d) Other issuers		
Total	**82,015**	**23**

4.4 Available-for-sale financial assets: annual changes

Items/Amounts	Debt securities	Equity securities	Units in inv. funds	Loans	Total
A. Beginning balance		23			23
B. Increases					
B1. Purchases	81,676				81,676
B2. Positive fair value changes	592				592
B3. Impairment reversals					
- recognized in income statement					
- recognized in equity					
B4. Transfers from other portfolios					
B5. Other changes	424				424
C. Decreases					
C1. Sales					
C2. Redemptions, repayments					
C3. Negative fair value changes					
C4. Impairment losses					
- recognized in income statement					
- recognized in equity					
C5. Transfers to other portfolios					
C6. Other changes	(700)				(700)
D. Ending balance	**81,992**	**23**			**82,015**

Section 6 - Due from banks - Item 60

€116,493 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 the management of "non-recourse receivables purchased".

6.1 Due from banks: product breakdown

Types of Transactions/Amounts	12.31.2013 CA	12.31.2013 FV L1	12.31.2013 FV L2	12.31.2013 FV L3	12.31.2012 CA	12.31.2012 FV L1	12.31.2012 FV L2	12.31.2012 FV L3
A. Due from central banks								
1. Time deposits								
2. Obligatory reserve								
3. Reverse repos								
4. Other								
B. Due from banks								
1. Loans								
1.1 Current accounts and demand deposits	115,743			115,743	101,139			101,139
1.2 Time deposits	750			750				
1.3 Other loans								
- reverse repos								
- finance leases								
- other					130			130
2. Debt securities								
2.1 Structured securities								
2.2 Other								
Total	**116,493**			**116,493**	**101,269**			**101,269**

Time deposits totaling €750 thousand refer to the obligatory reserve at ICBPI, as Banca Farmafactoring is indirectly registered with the system.

The current account includes €398 thousand referring to the relationship with ICBPI which acts as a clearing house and provides payment and other services on behalf of Banca Farmafactoring.

There are no impaired assets in this item.

Section 7 - Receivables and loans - Item 70

€1,160,174 thousand

Receivables and loans mainly include receivables from debtors for factoring transactions.

7.1 Receivables and loans: product breakdown

"Receivables and loans" are composed as follows:

• "performing" non-recourse receivables purchased, recorded in the name of the assigned debtor, which meet the conditions for derecognition, measured at amortized cost, with a balance of €1,072,975 thousand.
Included in this amount are "not impaired past due receivables", in accordance with the provisions of Circular 272 of July 30, 2008 and subsequent updates - *"Matrix Accounts"*, equal to €180,204 thousand.
Non-recourse receivables are mainly purchased when already past due and the principal portion of the receivables is deemed collectible.

Receivables and loans also comprise receivables sold, for a total of €308,557 thousand, but not derecognized from the assets in the financial statements since the sale did not involve the transfer of the risks and rewards associated with such receivables. The amount refers to three transactions for the securitization of health care receivables.

"Impaired assets", inclusive of exposure for purchases below face value, total €8,367 thousand and comprise:

- **Non-performing**: the amount of €2,368 thousand corresponds to the exposure with the debtor Fondazione San Raffaele del Monte Tabor. After an agreement was recognized by the composition of creditors, approved by the meeting of creditors on March 19, 2012, for the principal as well as the late interest, which was nevertheless completely written down, the Bank decided not to make any provision since the total of the collections deriving from the agreement are in line with the outstanding amount of principal.
  Fondazione San Raffaele del Monte Tabor in liquidation and in a composition of creditors, in 2013 paid the first two distributions, of about €9.6 million.
  The other non-performing receivables have been completely written off to the provision account so that their net amount is nil.
- **Doubtful receivables**: consisting entirely of "objective" doubtful receivables, for €196 thousand;
- **Past due receivable**s: for €5,803 thousand;

• other loans receivable, for €78,832 thousand, include:

- advances to assignors for €2,244 thousand;
- loan facility agreements, signed with the subsidiary Farmafactoring España S.A. regulated on an arm's length basis. This loan facility is drawn for €42.5 million at December 31, 2013;
- a loan receivable from the parent FF Holding S.p.A. for €1.7 million, regulated on an arm's length basis;
- a receivable from the vehicle company FF Finance S.r.l. This amount refers to the securitization transaction with Banca IMI, in relation to which at December 31, 2013 Banca Farmafactoring holds securities for €100 million, repurchased in the second half of 2012.

The receivable position derives from the assets put in place during December with the aim of reducing the original amount from €200 million to €100 million, through the reimbursement of the securities held by Banca Farmafactoring, which took place in January 2014;
- receivables from assignors for legal fees to be recovered for €2,187 thousand;
- receivables for commissions to be invoiced to assignors and for interest on extended payment terms to be charged to debtors, for €2,953 thousand;
- receivables for interest on late payments. At December 31, 2013 the amount is €102,468 thousand which is fully offset by a charge to the provision for interest on late payments for the same amount, resulting in a nil effect. Given the uncertainty and the difficulty of establishing the collectibility of the interest on late payments, the interest is prudently recorded in the income statement only when collection is effectively received.

Past due receivables amount to €5,803 thousand and consist of receivables from central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2013 are past due more than 90 days.
Specifically, exposure with central administrations and central banks, public sector entities and territorial entities are considered past due when the debtor has not made any payment for any of the positions owed to the bank for more than 90 days.

"Objective" doubtful receivables amount to €196 thousand and are composed of exposure with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.

Non-performing receivables amount to €2,368 thousand and consist of exposures with parties that are in a state of insolvency or basically in similar situations, regardless of any provisions for loss set aside by the Bank.
Non-performing receivables, therefore, include all doubtful uncollectible receivables, net of writedowns for estimated impairment losses on receivables and any writebacks.

Receivables purchased below face value, net of writedowns of €22 thousand, amount to €2,447 thousand.

In 2013, the realizable value of receivables purchased below face value is equal to €2,134 thousand.

Types of transactions/ Amounts	12.31.2013						12.31.2012					
	Carrying amount			Fair Value			Carrying amount			Fair Value		
	Performing	Impaired		L1	L2	L3	Performing	Impaired		L1	L2	L3
		Purchas.	Other					Purchas.	Other			
Loans												
1. Current accounts												
2. Reverse repos												
3. Mortgages												
4. Credit cards, personal loans, garnishment of wages												
5. Finance leases												
6. Factoring	1,072,975		8,367			1,081,342	1,206,383		22,975			1,229,358
7. Other loans	78,832					78,832	11,042					11,042
Debt securities												
8. Structured securities												
9. Other												
Total	**1,151,807**		**8,367**			**1,160,174**	**1,217,425**		**22,975**			**1,240,400**

Legal action that is undertaken is mainly aimed at accelerating credit recovery.

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

Fair value

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

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

7.2 Receivables and loans: breakdown by debtors/issuers

Types of transactions/Amounts	12.31.2013 Carrying amount			12.31.2012 Carrying amount		
	Performing	Impaired		Performing	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	11,320					
b) Other public sector entities	1,061,564		5,798	1,205,904		8,261
c) Other entities						
- non-financial companies	2,291		130	5,326		124
- financial companies	71,448			5,726		
- insurance companies						
- other	5,184		2,439	469		14,590
Total	**1,151,807**		**8,367**	**1,217,425**		**22,975**

Section 10 - Investments - Item 100

€6,294 thousand

Investments refer to the company Farmafactoring España S.A., a wholly-owned subsidiary of Banca Farmafactoring.
The investment value is €6,294 thousand and 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.
The losses reported during the start-up phase are not considered permanent and therefore no impairment loss was recognized on the investment.

Key information about Farmafactoring España S.A. at December 31, 2013 is presented in the following table.
The financial statements of the Spanish company refer to the year ended December 31, 2013.

10.1 Investments in subsidiaries, subsidiaries under joint control and companies under significant influence: relative information

Name	Headquarters	Investment holding %	Voting rights %
A. Subsidiaries wholly owned			
1) Farmafactoring España S.A.	Madrid	100%	100%
2)			
B. Subsidiaries under joint control			
1)			
2)			
C. Companies under significant influence			
1)			
2)			

10.2 Investments in subsidiaries, subsidiaries under joint control and companies under significant influence: accounting information

Name	Total assets	Total revenues	Profit (loss)	Equity	Carrying amount	Fair Value		
						L1	L2	L3
A. Subsidiaries wholly owned								
1) Farmafactoring España S.A.	48,589	2,555	22	4,698	6,294			6,294
2)								
B. Subsidiaries under joint control								
1)								
2)								
C. Companies under significant influence								
1)								
2)								
Total	**48,589**	**2,555**	**22**	**4,698**	**6,294**			

10.3 Annual changes in investments

	12.31.2013	12.31.2012
A. Beginning balance	**6,294**	**6,294**
B. Increases		
B1. Purchases		
B2. Impairment reversals		
B3. Revaluations		
B4. Other changes		
C. Decreases		
C1. Sales		
C2. Impairment losses		
C3. Other changes		
D. Ending balance	**6,294**	**6,294**
E. Total Revaluations		
F. Total Impairment losses		

Section 11 - Property, plant and equipment - Item 110

€12,722 thousand

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

Assets/Amounts	12.31.2013	12.31.2012
1) Owned assets		
a) Land	3,685	3,685
b) Buildings	7,634	7,888
c) Furniture and fixtures	317	386
d) Electronic systems	515	614
e) Other	571	723
2) Leased assets acquired under finance leases		
a) Land		
b) Buildings		
c) Furniture and fixtures		
d) Electronic systems		
e) Other		
Total	**12,722**	**13,295**

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

	Land	Buildings	Furniture and fixtures	Electronic systems	Other	Total
A. Gross beginning balance	**3,685**	**7,888**	**386**	**614**	**723**	**13,295**
A.1 Total net reduction in value						
A.2 Net beginning balance	**3,685**	**7,888**	**386**	**614**	**723**	**13,295**
B. Increases						
B.1 Purchases		108	31	336	135	610
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					14	14
C. Decreases						
C.1 Disposals						
C.2 Depreciation		362	100	434	301	1,198
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**	**7,634**	**317**	**516**	**571**	**12,722**
D.1 Net impairment loss						
D.2 Gross ending balance	**3,685**	**7,634**	**317**	**516**	**571**	**12,722**
E. Carried at cost						

At the date of IFRS first-time adoption (January 1, 2005), the properties used by the Company in its business (Milan and Rome) were measured at fair value which then became the new cost from that date.
The measurement at first-time adoption resulted in a revaluation of the buildings for approximately €4 million.
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

€1,122 thousand

12.1 Intangible assets: breakdown

Assets/Amounts	12.31.2013 Finite life	12.31.2013 Indefinite life	12.31.2012 Finite life	12.31.2012 Indefinite life
A1. Goodwill				
A2. Other intangible assets				
A.2.1 Assets measured at cost				
a) intangible assets generated internally				
b) other	1,122		1,298	
A.2.2 Assets measured at fair value				
a) intangible assets generated internally				
b) other				
Total	**1,122**		**1,298**	

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.

BANCA FARMAFACTORING

12.2 Intangible assets: annual changes

	Goodwill	Other intangible assets: generated internally		Other intangible assets: Other		Total
		Def	Indef	Def	Indef	
A. Beginning balance				**1,298**		**1,298**
A.1 Total net reduction in value						
A.2 Net beginning balance				**1,298**		**1,298**
B. Increases						
B.1 Purchases				396		**396**
B.2 Increase in internally generated intangible assets						
B.3 Impairment reversals						
B.4 Positive fair value changes allocated to:						
- *equity*						
- *income statement*						
B.5 Exchange gains						
B.6 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Adjustments for						
- amortization				(572)		**(572)**
- 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				**1,122**		**1,122**
D.1 Net impairment loss						
E. Gross ending balance				**1,122**		**1,122**
F. Carried at cost						

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 €37,724 thousand compared to €20,052 thousand at December 31, 2012. The increase is mainly due to the provisions of Legislative Decree 133 of November 30, 2013, which raised the IRES and IRAP tax advances for banks and financial companies to 128.5% for the current tax period to December 31, 2013.
On the same date a decree by the Ministry of the Economy and Finance, in implementing the provisions of paragraph 4 of article 15 of Decree Law 102 of August 31, 2013, has established a further increase of 1.5% in advance payments, bringing them to 130%.

Current tax liabilities amount to €35,792 thousand compared to €29,272 thousand at December 31, 2012.
The increase comes from the application of Legislative Decree 133 of November 30, 2013 which requires, for 2013, credit and financial entities and insurance companies to pay a further 8.5% over the ordinary IRES tax rate, which therefore rose from 27.5% to 36%.

13.1 Deferred tax assets: breakdown

€1,595 thousand

Deferred tax assets are mainly composed of the portion of non-deductible impairment charges on receivables and the accrual on deferred employee benefit obligations.

13.2 Deferred tax liabilities: breakdown

€11,219 thousand

Deferred tax liabilities are mainly composed of the provisions for receivables referring to prior years.

The Bank has a dispute pending with the Tax Revenue Agency which originated from an audit for the years 2004-2007 and refers to the writeback of accelerated depreciation in excess of the deductible amount, following the reclassification for tax purposes of an item in the financial statements.

At this time, the only assessment referring to the year 2004, for €381 thousand, was ruled on by the Regional Tax Commission of Lombardy which filed its verdict on October 19, 2012, a verdict which, contrary to the one issued by the Provincial Tax Commission, was in favor of the Tax Revenue Agency. In the opinion of the tax consultant, the verdict appears arguable in that the Regional Tax Commission did not express itself on the merits of the tax claim but limited itself to a merely formal evaluation of the ruling handed down by the judges of the first instance; therefore, the Bank has engaged a lawyer to prepare the appeal to the Court of Cassation.

Furthermore, it should be noted that, since the observations referred to the timing of the charges for depreciation, which can be translated into the transfer of the deductibility of the costs over time, any higher tax which could ultimately be assessed would not constitute costs for the Bank in that they represent deferred taxes which may be recovered in the following years.

Consequently, the Bank did not consider it necessary to set aside an amount in the financial statements for the existing dispute since it believes that the observation is based upon a debatable interpretation of the law, believing that it would be reasonable to wait for the outcome of the case.

13.3 Changes in deferred tax assets (through the income statement)
€1,595 thousand

	12.31.2013	12.31.2012
1. Beginning balance	**2,226**	**2,608**
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	348	290
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	(979)	(672)
b) writeoffs due to non-recoverability		
c) due to changes in accounting policies		
d) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**1,595**	**2,226**

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

	12.31.2013	12.31.2012
1. Beginning balance	**548**	**587**
2. Increases		
3. Decreases		
3.1 Reversals	(39)	(39)
3.2 Conversion into tax credit		
a) due to reported losses		
b) due to tax losses		
3.3 Other decreases		
4. Ending balance	**509**	**548**

13.4 Change in deferred tax liabilities (through the income statement)
€10,987 thousand

	12.31.2013	12.31.2012
1. Beginning balance	**11,337**	**11,267**
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		178
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	(314)	(108)
b) due to changes in accounting policies	(36)	
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**10,987**	**11,337**

13.6 Change in deferred taxes (through equity)
€232 thousand

	12.31.2013	12.31.2012
1. Beginning balance		
2. Increases		
2.1 Deferred tax liabilities recognized during the year		
a) relating to prior years		
b) due to changes in accounting policies	36	
c) other	196	
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		
b) due to changes in accounting policies		
c) other		
3.2 Tax rate reductions		
3.3 Other decreases		
4. Ending balance	**232**	

The total amount of "deferred tax liabilities" of €11,219 thousand is the sum of deferred taxes with a contra-entry to the income statement for €10,987 thousand and to equity for €232 thousand, which refer principally to the reserves for owned securities in portfolio, classified as available-for-sale.

Section 15 - Other assets – Item 150
€15,146 thousand

15.1 Breakdown of item 150 "Other assets"

Details	12.31.2013	12.31.2012
Security deposits	16	16
Other receivables	1,606	1,019
Accrued income and prepaid expenses	13,525	13,632
Total	**15,146**	**14,667**

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

LIABILITIES AND EQUITY

Section 1 – Due to banks – Item 10
€804,451 thousand

1.1 Due to banks: product breakdown

Types of transactions/Amounts	12.31.2013	12.31.2012
1. Due to central banks		
2. Due to banks		
2.1 Current accounts and demand deposits	204,951	208,000
2.2 Time deposits	599,500	529,000
2.3 Loans		
2.3.1 Repos		
2.3.2 Other		
2.4 Payables in respect of commitments to repurchase treasury shares		
2.5 Other payables		
Total	804,451	737,000
Fair Value - Level 1		
Fair Value - Level 2		
Fair Value - Level 3	804,451	737,000
Total Fair Value	804,451	737,000

"Due to banks" refers to non-revolving loans at due dates set by the banking system.

Section 2 – Due to customers – Item 20

€324,287 thousand

2.1 Due to customers: product breakdown

Types of transactions/Amounts	12.31.2013	12.31.2012
1. Current accounts and demand deposits		
2. Time deposits		
3. Loans		
3.1 Repos		
3.2 Other loans	72,379	61,034
4. Payables in respect of commitments to repurchase treasury shares		
5. Other payables	251,908	293,701
Total	**324,287**	**354,735**
Fair Value - Level 1		
Fair Value - Level 2		
Fair Value - Level 3	**324,287**	**354,735**
Total Fair Value	**324,287**	**354,735**

"Other loans" refer to:
- the loan of €52.4 million from International Factor Italia S.p.A. - IFITALIA, due February 28, 2014;
- the loan of €20.0 million from Unicredit Factoring S.p.A., due June 13, 2014.

"Other payables" refer to:
- the payable to Farmafactoring SPV I S.r.l. of €107.7 million relating to the aforementioned securitization structured by Deutsche Bank.
- the payable to Farmafactoring SPV II S.r.l. of €43.3 million relating to the aforementioned securitization structured by BayernLB AG;
- collections of managed receivables due to the assignors of €100.8 million.

Section 4 - Financial liabilities held for trading – Item 40
€548 thousand

The amounts at December 31, 2013 and at December 31, 2012 refer to financial derivatives issued by banks.

4.1 Financial liabilities held for trading: product breakdown

	12.31.2013					12.31.2012				
	CA	Fair Value			FV*	CA	Fair Value			FV*
Assets/Amounts		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 bonds										
3.2 Other securities										
3.2.1 Structured securities										
3.2.2 Other										
Total A										
B. Derivatives										
1. Financial derivatives										
1.1 Trading	133,000		548			278,000		2,244		
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	**133,000**		**548**			**278,000**		**2,244**		
Total (A+B)	**133,000**		**548**			**278,000**		**2,244**		

At December 31, 2013, the value of the liabilities connected to the fair value of the financial derivatives held for trading is €548 thousand and the notional value of reference is €133 million.

Section 8 – Tax liabilities – Item 80

See "Section 13 - Tax assets and liabilities" under assets in the balance sheet.

Section 10 – Other liabilities – Item 100

€18,449 thousand

10.1 Other liabilities: breakdown

Details	12.31.2013	12.31.2012
Payables to suppliers	1,285	1,038
Invoices to be received	5,207	5,549
Payables to the parent	0	0
Payables to the subsidiary	0	0
Payables to the tax authorities	716	442
Payables to social security agencies	338	310
Payables to employees	2,337	2,164
Payables for receivables management	594	1,879
Collections pending allocation	3,560	5,361
Other payables	2,753	2,966
Accrued liabilities and deferred income	1,567	2,542
Total	**18,449**	**22,251**

"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, 2013 but still outstanding since they were not cleared and recorded by that date.

"Other payables" include the quota of collections to be transferred to International Factors Italia S.p.A. – IFITALIA relating to the bank pool loan.
"Accrued liabilities and deferred income" include interest expenses accrued on loans.

Section 11 – Employee severance indemnities – Item 110

€705

11.1 "Employee severance indemnities": annual changes

	12.31.2013	12.31.2012
A. Beginning balance	**696**	**712**
B. Increases		
B.1 Provision for the year	253	254
B.2 Other increases		
C. Decreases		
C.1 Payments made	(6)	(21)
C.2 Other decreases	(238)	(249)
D. Ending balance	**705**	**696**
Total	**705**	**696**

11.2 Other information

The liability recognized in the financial statements at December 31, 2013 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, now 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.

Section 12 – Provisions for risks and charges – Item 120

€3,237 thousand

12.1 Provisions for risks and charges: breakdown

Items/Amounts	12.31.2013	12.31.2012
1. Pension funds	**2,533**	**2,521**
2. Other provisions		
2.1 Legal disputes		
2.2 Personnel expenses		
2.3 Other	705	602
Total	**3,237**	**3,123**

12.2 Provisions for risks and charges: annual changes

	Pension funds	Other provisions	Total
A. Beginning balance	**2,521**	**602**	**3,123**
B. Increases			
B.1 Provision for the year	651	102	754
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	(640)		(640)
C.2 Variation due to change in the discount rate			
C.3 Other changes			
D. Ending balance	**2,532**	**704**	**3,237**

12.3 Defined benefit pension funds

The provision refers to:
- for €92 thousand, to the non-competition agreement signed by the executives of the Bank;
- for €559 thousand, to the deferral of a part of the bonus due for the year to 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 with the Bank, 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 comply with Bank of Italy provisions in this respect.

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

The provisions, in accordance with IAS 19, are recorded on the basis of an actuarial calculation carried out by an outside specialized firm. The obligation was 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 use during the year refers to the payment of the Long-Term Incentive plan, the variable compensation plan in effect up to 2012.

Section 14 – Equity – Items 130, 150, 160,170, 180, 190 and 200
€234,605 thousand

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

At December 31, 2013, 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		
B.2 Shares outstanding: Beginning balance	**1,700,000**	
B. Increases		
B.1 New issues		
- A Payment		
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- A Free		
- to employees		
- to directors		
- other		
B.2 Sales treasury shares		
B.3 Other changes		
C. Decreases		
C.1 Cancellation		
C.2 Purchase of treasury shares		
C.3 Sale of company transactions		
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 the financial statements.

	12.31.2013	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	**50,596**				
- Legal reserve	19,044	*B*			
- Extraordinary reserve	88	*A,B,C*	88		
- Retained earnings	31,463	*A,B,C*	31,463		(*) 34,000
Valuation reserves	**4,219**				
- Available-for-sale securities	396	*A,B,C*	396		
- Other	3,823	*A,B,C*	3,823		
Total share capital and reserves	**185,715**		**35,770**		**34,000**

(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 €96,900 thousand in 2009 to €130,900 thousand in 2012.

Changes in reserves are as follows:

	Legal reserve	Retained earnings	Other reserves: Extraordinary	Total
A. Beginning balance	**16,222**	**31,386**	**88**	**47,696**
B. Increases				
B.1 Appropriation of profit	2,822	77		2,900
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	**19,044**	**31,463**	**88**	**50,596**

Legal reserve

The increase in the legal reserve of €2,822 thousand compared to the prior year is due to the appropriation of the profit for the year ended December 31, 2012, as approved by the ordinary shareholders' meeting held on April 24, 2013.

Retained earnings

The increase in retained earnings of €77 thousand compared to the prior year is due to the appropriation of the profit for the year ended December 31, 2012, approved by the ordinary shareholders' meeting held on April 24, 2013.

Valuation reserves

"Valuation reserves" amount to €4,219 thousand and increased by €396 thousand compared to December 31, 2012; they refer to the reserves for available-for-sale securities held in portfolio.

Other information

1. Guarantees provided and commitments

Transactions	12.31.2013	12.31.2012
1) Financial guarantees provided to	22	
a) Banks	22	
b) Customers		
2) Commercial guarantees provided to	423	
a) Banks		
b) Customers	*423*	
3) Irrevocable commitments to disburse funds		2,000
a) Banks		
i) usage certain		
ii) usage uncertain		
b) Customers		
i) usage certain		*2,000*
ii) usage uncertain		
4) Underlying commitments for credit derivatives: sale of protection		
5) Assets used to guarantee obligations of third parties		
6) Other commitments		
Total	**445**	**2,000**

"Financial guarantees provided to – Banks" of €22 thousand refer to the commitment undertaken with Fondo Interbancario di Tutela dei Depositi.
"Commercial guarantees provided to – Customers" of €423 thousand consist of the guarantee given to the subsidiary Farmafactoring España S.A. to support legal action taken against assigned debtors of the subsidiary.

2. Assets used to guarantee own liabilities and commitments

Portfolios	12.31.2013	12.31.2012
1. Financial assets held for trading		
2. Financial assets at fair value through profit or loss		
3. Available-for-sale financial assets	15,903	
4. Financial assets held to maturity		
5. Due from banks		
6. Receivables and loans		
7. Property, plant and equipment		

"Financial assets measured at fair value through profit or loss" of €15,903 thousand consist of government securities used to guarantee e-MID operations.

4. Asset management and brokerage on behalf of others

Type of services	Amount
1. Management and brokerage on behalf of third parties	
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	**180.000**
a) third party securities on deposit: relating to custodian bank activities (excluding portfolio management)	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
b) third party securities on deposit (excluding portfolio management): other	
1. securities issued by the bank that prepares the financial statements	
2. other securities	
c) third party securities deposited with third parties	
d) owned securities deposited with third parties	180.000
4. Other	

Part C - Income Statement

All amounts are expressed in thousands of euros.

Section 1 – Interest – Items 10 and 20

1.1 Breakdown of item 10 "Interest and similar income"

€152,739 thousand

Items/Type	Debt securities	Loans	Other transactions	2013	2012
1. Financial assets held for trading					
2. Available-for-sale financial assets	1,548			**1,548**	
3. Financial assets held to maturity					
4. Due from banks		982		**982**	**1,447**
5. Receivables and loans		99,216	50,990	**150,206**	**149,655**
6. Financial assets at fair value through profit or loss					
7. Hedging derivatives	X	X			
8. Other assets	X	X	2	**2**	
Total	**1,548**	**100,199**	**50,992**	**152,739**	**151,102**

Interest was recognized during the year for €1,068 thousand on positions classified as "impaired" at December 31, 2013.

1.3 Interest and similar income: other information

Interest income on "Available-for-sale financial assets" of €1,548 thousand reflects the government securities purchased by the Bank in 2013.
The criterion for recognition of such interest reflects the amortized cost method, as a result of which the income connected with such assets is recognized in relation to the return deriving from the expected cash flows.

Interest income "Due from banks" refers to temporary cash on hand in bank current accounts.

Interest income on "Receivables and loans" – Loans totals €99,216 thousand and consists largely of fees and commissions charged to the assignors for the purchase of non-recourse receivables. The principle used for charging these fees and commissions reflects the criterion for the measurement of non-recourse receivables purchased at amortized cost, in accordance with IAS 39, as a result of which the income connected with such assets is recognized in relation to the return originating from the expected cash flows.

Interest income on "Receivables and loans" – Other transactions includes €50,990 thousand of interest on late payments collected during the year.

1.4 Breakdown of item 20 "Interest and similar expenses"
€53,713 thousand

Items/Type	Loans	Securities	Other	2013	2012
1. Due to central banks		X			
2. Due to banks	33,329	X		**33,329**	**34,117**
3. Due to customers	1,849	X	16,926	**18,775**	**12,759**
4. Securities outstanding	X				
5. Financial liabilities held for trading			1,609	**1,609**	**3,086**
6. Financial liabilities at fair value through profit or loss					
7. Other liabilities and provisions	X	X			
8. Hedging derivatives	X	X			
Total	**35,178**		**18,535**	**53,713**	**49,963**

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

Interest expenses on "Due to customers - Loans" mainly refer to loans secured from factoring companies and amounts due to assignors in relation to the different currency with which the sums collected are credited to the respective bank current accounts.

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

Section 2 – Fees and commissions – Items 40 and 50

2.1 Composizione della voce 40 "Commissioni attive"
Euro 10.251 mila

Types of services /Amounts	2013	2012
a) guarantees provided	-	-
b) credit derivatives	-	-
c) management, brokerage and consulting services:	-	-
1. securities trading	-	-
2. currency trading	-	-
3. portfolio management	-	-
3.1. individual	-	-
3.2. collective	-	-
4. custody and administration of securities	-	-
5. custodian bank	-	-
6. placement of securities	-	-
7. receipt and transmission of orders	-	-
8. advisory services	-	-
8.1 related to investments	-	-
8.2 related to financial structure	-	-
9. distribution of third-party services	-	-
9.1. portfolio management	-	-
9.1.1. individual	-	-
9.1.2. collective	-	-
9.2. insurance products	-	-
9.3. other products	-	-
d) collection and payment services	10,251	10,106
e) securitization servicing	-	-
f) factoring	-	-
g) tax collection services	-	-
h) management of multilateral trading facilities	-	-
i) management of current accounts	-	-
j) other services		
Total	**10,251**	**10,106**

"Collection and payment services" include sub-servicing fees and commissions for €80 thousand in 2013 and €43 thousand in 2012.

2.3 Breakdown of item 50 "Fee and commission expenses"
€846 thousand

Details/Sectors	2013	2012
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 (to specify)		
- bank account charges and fees	259	272
- commissions and fees for bank current account funds availability	229	129
- other banking expenses	335	386
- other	24	-
Total	**846**	**787**

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

4.1 Breakdown of item 80 "Gains/losses on trading"
€1,701 thousand

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 securities	-	-	-	-	-
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 Amounts due	-	-	-	-	-
2.3 Other liabilities	-	-	-	-	-
3. Financial assets and liabilities: exchange differences	X	X	X	X	**-**
4. Derivatives	**-**	**1,701**	**-**	**-**	**1,701**
4.1 Financial derivatives:	-	-	-	-	1,701
- on debt securities and interest rates	-	1,701	-	-	1,701
- on equity instruments and stock indexes	-	-	-	-	-
- on currency and gold	X	X	X	X	-
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**-**	**1,701**	**-**	-	**1,701**

Fair value changes in derivatives

Item	Carrying amount	Change
Financial assets held for trading		
Amount at December 31, 2012		
Amount at December 31, 2013	5	5
Financial liabilities held for trading		
Amount at December 31, 2012	2,244	
Amount at December 31, 2013	548	1,696
Gains/losses on trading		**1,701**

Section 8 – Impairment losses/reversals – Item 130

€(1,136) thousand

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

€(1,136) thousand

Items/Impairment losses/reversals	Impairment losses			Impairment reversals				2013	2012
	Specific		Portfolio	Specific		Portfolio			
	Writeoffs	Other		A	B	A	B		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- loans	-	-	-	-	-	-	-	-	-
- debt securities	-	-	-	-	-	-	-	-	-
B. Receivables and loans:	**(186)**	**(775)**	**(217)**	**-**	**43**	**-**	**-**	**(1,136)**	**462**
Impaired receivables purchased	-	-	-	-	-			-	-
- loans	-	-	X	-	-	X	X	-	-
- debt securities	-	-	X	-	-	X	X	-	-
Other receivables	(186)	(775)	(217)	-	43	-	-	(1,136)	462
- loans	(186)	(775)	(217)	-	43	-	-	(1,136)	462
- debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(186)**	**(775)**	**(217)**	**-**	**43**	**-**	**-**	**(1,136)**	**462**

Section 9 – Administrative expenses – Item 150
€28,824 thousand

9.1 Breakdown of item 150.a "Personnel costs"
€12,724 thousand

Tipologia di spese/Valori	2013	2012
1. Employees		
a) wages and salaries	7,436	6,969
b) social security charges	2,158	2,141
c) employee severance indemnity charges		
d) pension charges		
e) provision for employee severance indemnity	252	236
f) provision for pension and similar obligations		
- defined contribution		
- defined benefit		
g) payments to external supplementary pension funds		
- defined contribution	72	74
- defined benefit		
h) costs relating to share based payments		
i) other benefits to employees	760	552
2. Other employees in service	33	119
3. Directors and statutory auditors	2,013	1,239
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	**12,724**	**11,330**

9.2 Average number of employees by category

Employees

number

Category	Average number 2013	Average number 2012
Executives	7	7
Supervisors	33	30
Remaining staff	65	65
Total	**105**	**102**

Other staff
Traineeships: 2

9.4 Other benefits to employees

The amount of €760 thousand refers principally to expenses incurred for training, insurance for employees and meal tickets.

9.5 Breakdown of item 110.b "Other administrative expenses"

€16,098 thousand

Details	2013	2012
Legal fees	3,993	3,838
Data processing costs	1,096	910
External receivables management services	946	922
Compensation to Supervisory Body	83	83
Legal fees for receivables under management	928	1,031
Notary fees	383	327
Notary fees to be recovered	100	157
Corporate hospitality and donations	821	784
Maintenance expenses	874	1,016
Non-deductible VAT	1,453	1,443
Other indirect taxes and duties	182	151
Consulting fees	2,613	2,046
Office operating expenses	597	576
Other expenses	2,029	1,507
Total	**16,098**	**14,788**

Other administrative expenses include legal fees for €928 thousand and notary fees for €100 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 2013 mainly include the following.

Details	2013
Fees to independent auditors	110
Internal audit fees (external firm)	66
Data processing fees (external firms)	1,088
Collection fees (external firms)	946
Organization services fees (external firm)	165

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

€754 thousand

10.1 Breakdown of item 160 "Net provisions for risks and charges"

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

Details	2013	2012
Provision for pension and similar obligations	651	375
Other provisions	102	49
Total	**754**	**424**

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

BANCA FARMAFACTORING

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

11.1 Breakdown of item 170 "Net adjustments to/writebacks on property, plant and equipment"
€1,198 thousand

Items/Net adjustments/ writebacks	Depreciation (a)	Impairment losses (b)	Impairment reversals (c)	Net result (a + b - c)
A. Property plant and equipment				
A.1 Owned assets	1,198			1,198
- used in the business	1,198			1,198
- held for investment				
A.2 Leased assets acquired under finance leases				
- used in the business				
- held for investment				
Total	**1,198**			**1,198**

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

12.1 Breakdown of item 180 "Net adjustments to/writebacks on intangible assets"
€572 thousand

Items/Net adjustments/ writebacks	Amortization (a)	Impairment losses (b)	Impairment reversals (c)	Net result (a + b - c)
A. Intangible assets				
A.1 Owned assets	572			572
- generated internally				
- other	572			572
A.2 Leased assets acquired under finance leases				
Total	**572**			**572**

Section 13 – Other operating income/expenses – Item 190
€6,859 thousand

13.1 Breakdown of item 190 "Other operating expenses"

Details	2013	2012
1. Operating expenses		
- Prior period items	(60)	(233)
- Rounding and rebates	(71)	(81)
- Other expenses	0	0
Total	**(131)**	**(314)**

13.2 Breakdown of item 190 "Other operating income"

Details	2013	2012
1. Operating income		
- Recovery of legal fees for purchases of non-recourse receivables	2,412	1,474
- Recovery of legal fees for credit management of receivables	928	1,031
- Receivables realized at other than face value	2,134	1,136
- Prior year items	853	790
- Recovery of notary expenses from assignors	100	157
- Royalties from Farmafactoring España S.A.	250	200
- Other income	314	400
Total	**6,990**	**5,187**

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

€35,617 thousand

18.1 Breakdown of "Income taxes on profit from continuing operations"

Details	2013	2012
1. Current income taxes	35,300	28,876
2. Adjustment to current income taxes of prior years		
3. Reduction in current income taxes for the year		
3.*bis* Reduction in current tax for the year due to tax credit under Law 214/2011		
4. Changes to deferred tax assets	631	383
5. Changes to deferred tax liabilities	(314)	70
Income taxes for the year	**35,617**	**29,329**

18.2 Reconciliation of theoretical tax and effective tax expense

Details	IRES	IRAP
Taxable profit used for purposes of tax calculations	84,508	92,830
Theoretical tax expense 36% IRES – 5.57% IRAP	**30,423**	**5,171**
Non-deductible permanent differences	2,759	2,152
Deductible IRAP quota	(1,697)	
Temporary differences deductible in future years	1,231	
Reversal of temporary differences referring to future years	(3,160)	(1,815)
Taxable profit	**83,642**	**93,168**
Current income taxes for the year: 36% IRES – 5.57% IRAP	**30,111**	**5,189**

Part D - Comprehensive Income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

Items	Before tax effect	Tax effect	After tax effect
10. Profit for the year	X	X	**48,890,449**
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	(1,053)	290	(764)
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 foreign investments:			
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			
b) reclassification to income statement			
c) other changes			
100. Available-for-sale financial assets:			
a) fair value changes	592,197	(195,839)	396,357
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			
140. Comprehensive income (10+130)			**49,286,042**

Part E - Information on Risks and related Risk Management Policies

All amounts are expressed in thousands of euros.

Introduction

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

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

The Risk Management Function has, among other, responsibility for:
• cooperating with the corporate bodies in defining the overall system for the management of risks;
• ensuring adequate risk management processes through the introduction and maintenance of suitable systems for the management of risks in order to identify, measure, control or attenuate all the relevant risks;

• ensuring the assessment of the capital absorbed and the relative adequacy, by defining the processes and procedures to meet every type of present and future risk, which takes 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 – Heading V, articles 1260–1267) and by Law 52 of February 21, 1991 and subsequent laws, consist of a plurality of financial services articulated in various ways through the sale of with recourse and non-recourse trade receivables.
A particular characteristic of factoring transactions is the involvement of three different parties:
• Factor (assignee)
• Client (assignor)
• Debtor (assigned)

Also with regard to the assessment of credit risk, it should be noted that the Bank did not engage in activities for the purchase of impaired receivables, including those realized pursuant to the cited Law 52/91.

2. Credit risk management policies

2.1 Organization
In view of the above considerations, the assessment of a factoring transaction must be conducted through the analysis of a multiplicity of factors: from the degree of fragmentation of risk to the characteristics of the trade transaction underlying the credit quality, from the reimbursement capability of the customer assignor to the solvency of the assigned debtors.
The monitoring and management of credit risk starts with a preliminary background check for credit lines, before a factoring service is offered. The various corporate functions work together and coordinate with meticulous synergy in order to provide an analytical and subjective assessment of the counterparties, both from a quantitative standpoint (current economic and financial situation, in the past and prospectively) and from a qualitative point of view (level of management, competitiveness, prospects of the product and potential credit volumes to be managed).
The guidelines and the procedures for monitoring and controlling credit risk are contained in the "Credit Regulation" in force, approved by the board of directors on February 23, 2004 and subsequent updates. A further organizational safeguard against credit risk is represented by the "Credit Control Regulation" approved by the board of directors on July 21, 2009 and subsequent updates,

which describes the credit control process on the debtor and is an integral part of the "Credit Regulation".
Credit risk is thus adequately covered at various levels of the 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 263 of December 27, 2006 *"New prudential supervision regulations for banks"*, 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.

On June 13, 2013, Bank of Italy was advised of Banca Farmafactoring's intention to use the ECAI ratings issued by the Dominion Bond Rating Service (DBRS) instead of Moody's Investor Service starting from the June 30, 2013 rating date.

The unsolicited rating of the Republic of Italy by DBRS is 'A low' and therefore the receivables exposure by the Bank from the Public Administration fall in the Credit Quality Class of 2, with a risk weight equal to 50%.
It was deemed that such value was a better representation – compared to a 100% risk weight in the Credit Quality Class 3 assigned by Moody's Investor Services – of the risks effectively attributable to the counterparties of the Public Administration, which currently represents more than 95% of the Bank's exposure.

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 for credit risk.

$$\text{Capital requirement} = 8\% \text{ RWA}$$

The Risk-Weighted Amount is determined by the sum of the risk-weighted assets of the various classes.
Furthermore, in computing the risk-weighted assets, the individual capital requirements to meet the counterparty, market and operational credit risks are reduced by 25% as set out in Bank of Italy Circular 263, which permits this reduction for banks belonging to a banking group.

On the basis of the above methodology, the capital requirement for credit risk at December 31, 2013 is equal to €52,787 thousand.

Moreover, as already 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 "receivables management only", the credit risk is very limited because it is limited to the Bank's exposure with the customer for the payment of the agreed fees and commissions or the reimbursement of legal fees incurred. The granting of a credit line for "receivables management only" follows the normal procedures used in the credit process even if the credit line can be decided by a body that is not a collegiate body.
Non-recourse factoring by its very nature represents the service that is most exposed to credit risk. For this reason, the background check for the credit line is conducted with the utmost attention and the decision-making power is reserved for the bodies that can provide approval.

Credit risk management, therefore, besides following internal corporate regulations must also abide by external regulations of Bank of Italy Circular 263 of December 27, 2006 *"New prudential supervision regulations for banks"*, and subsequent updates, with regard to concentrations of risk. In particular:
• a "large exposure" is defined as every position equal to or greater than 10% of regulatory capital;
• for banking groups and banks not belong to a banking group each risk-weighted position must be within the individual limit of 25% of regulatory 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 to the Central Credit Register (Circular 139 of February 11, 1991 – 14th update of April 29, 2011 *"Central Credit Register. Instructions for Credit Intermediaries"*) providing information on the financial debt of the debtor over the course of time and on the agreed/utilized ratio (which expresses the financial commitment of the Bank and the debt margins that it has with the system).

Qualitative assessment of receivables
The Bank performed an impairment test on the receivables portfolio in order to identify any impairment of its financial assets.
This analysis made it possible to distinguish between performing and non-performing receivables; included in the non-performing category are financial assets that show an individual risk of loss, while the remaining financial assets are classified in the performing category.

Performing receivables
The measurement of performing receivables includes receivables from customers which, although past due more than 90 days, show no objective indication of impairment at an individual level.
This representation is consistent with the criterion of measuring non-recourse receivables purchased at "amortized cost" which, in fact, is based on discounting estimated future cash flows according to an estimate of the time to collection.

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

In order to determine the Loss Given Default (LGD), the Bank assumed the value proposed by the "Basel Accord" for credits not covered by real guarantees from sovereign states, companies and banks as being equal to 45% of the Probability of Default (PD) found.
The collective assessment of the PD was performed by assigning a rating to the debtors (ASLs / AOs), corresponding to the credit rating assigned by the major rating agencies for the particular Region to which the debtors belong.

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

Starting from July 2012, the input parameters for the collective impairment model led, as a result of the continual downgrades of the Republic of Italy and the consequent downgrade of the regions in the fourth quarter of 2011, to a higher PD calculation compared to the past and, consequently, to a collective impairment loss that is no longer negligible.

Specifically, at December 31, 2013, the impairment test indicated an impairment loss of about €2 million. This led to a further collective impairment loss for the year of approximately €217 thousand.

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 net of individual impairment losses amount to €2,368 thousand.

2.3 Credit risk mitigation techniques
In order to render non-recourse receivables purchased compatible with the derecognition principle, the risk mitigation clauses, which could have in some way invalidated the effective transfer of risks and rewards, have been eliminated from the relative contracts.

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

The "Exposures/Impaired assets" correspond to the sum of:
• Past due, for a net amount of €5,803 thousand;
• Restructured exposures, not applicable;
• Doubtful, for a net amount of €196 thousand;
• Non-performing, for a net amount of €2,368 thousand.
The definitions of these categories are set out in the Regulatory Reporting process, and contained in Bank of Italy Circular 272 of July 30, 2008 *"Matrix Accounts"*, and subsequent updates.

Past due exposures
These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2013 are past due more than 90 days.
In particular, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor had not made any payment for any debt positions due to the bank for more than 90 days.

At December 31, 2013, total net past due receivables amount to €5,803 thousand.

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

At December 31, 2013, the Bank does not have any positions classified as restructured exposures.

Doubtful
These are exposures with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.
Doubtful receivables also include so-called "objective" doubtful receivables, that is, exposures that present the following conditions:
• do not belong to the "central administrations and central banks", "territorial entities" and "public sector entities" portfolios;
• are past due on a continuing basis more than 270 days;
• the total amount of past due receivables represents a portion equal to at least 10% of the entire exposure.

At December 31, 2013, total net doubtful receivables amount to €196 thousand and consist solely of "objective" doubtful receivables.

Non-performing

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

At December 31, 2013, the total of non-performing receivables, net of writedowns due to estimated impairment losses, amounts to €2,368 thousand, a figure considerably lower than in the prior year (€11,280 thousand).

This amount corresponds to the exposure with the debtor Fondazione San Raffaele del Monte Tabor in liquidation and admitted to the procedure for the composition of creditors. During 2013, payments for the first and second distribution were made for a total of approximately €9.6 million. After an agreement was recognized by the composition of creditors (approved by the meeting of creditors on March 19, 2012), for the principal portion as well as the late interest portion, which was nevertheless completely written down, the Bank decided not to make any provision since the total of the collections deriving from the agreement are in line with the outstanding amount of principal.

Compared to December 31, 2012, gross non-performing exposures went from about €1.4 million to about €4.6 million due to the payments received from Fondazione San Raffaele del Monte Tabor in liquidation and admitted to the procedure for the composition of creditors. The reduction was partially offset by the addition to non-performing receivables of another debtor and an assignor for an amount of approximately €600 thousand, although entirely written off during the year.

The other non-performing exposures are therefore entirely written off by a provision account so that the net amount is nil.

Unlike the considerations made for "Impaired assets", the valuation of past due and doubtful receivables is carried out at the level of portfolio since these positions do not display objective elements of individual impairment loss.

Quantitative information

A. Credit quality

A.1 Impaired and performing exposures: amounts, impairment charges, changes, breakdown by business activity/region

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

Portfolio/Quality	Non-perform.	Doubtful	Restruct. exposures	Impaired Past due	Not impaired Past due	Other Assets	Total
1. Financial assets held for trading						5	5
2. Available-for-sale financial assets						81,992	81,992
3. Financial assets held-to-maturity							
4. Due from banks						116,493	116,493
5. Receivables and loans	2,368	196		5,803	180,204	971,604	1,160,174
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
2013	**2,368**	**196**	**0**	**5,803**	**180,204**	**1,170,094**	**1,358,664**
2012	**11,820**	**2,894**	**0**	**8,261**	**186,879**	**1,131,815**	**1,341,669**

Included in receivables and loans are performing non-recourse receivables purchased, recorded in the name of the assigned debtor, which meet the conditions for derecognition, measured at amortized cost, in the amount of €1,072,975 thousand.
Among these are not impaired past due exposures – in accordance with the provisions of Bank of Italy Circular 272 of July 30, 2008 – *"Matrix Accounts"*, and subsequent updates, for €180,204 thousand.
All the purchases of non-recourse receivable refer to factoring transactions pursuant to Law 52/91. There were no transactions for the purchase of impaired receivables.

A.1.2 Breakdown of credit exposure by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific impair. losses	Net exposure	Gross exposure	Portfolio impair. loss	Net exposure	
1. Financial assets held for trading				5		5	5
2. Available-for-sale financial assets				81,992		81,992	81,992
3. Financial assets held-to-maturity							
4. Due from banks				116,493		116,493	116,493
5. Receivables and loans	11,259	2,892	8,367	1,153,780	1,973	1,151,807	1,160,174
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
2013	**11,259**	**2,892**	**8,367**	**1,352,270**	**1,973**	**1,350,297**	**1,358,664**
2012	**25,273**	**2,297**	**22,975**	**1,320,411**	**1,717**	**1,318,694**	**1,341,669**

A.1.3 Credit exposures with banks on and off-balance sheet: gross and net amounts

Exposure types/Amounts	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net Exposure
A. BALANCE SHEET EXPOSURE				
a) Non-performing				
b) Doubtful				
c) Restructured exposures				
d) Impaired past due exposures				
e) Other assets	116.493			116.493
TOTAL A	**116.493**			**116.493**
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other	27			27
TOTAL B	**27**			**27**
TOTAL (A+B)	**116.520**			**116.520**

The Bank did not purchase any impaired receivables.

A.1.6 Credit exposures for receivables and loans on and off-balance sheet: gross and net amounts

Exposure types/Amounts	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net Exposure
A. BALANCE SHEET EXPOSURE				
a) Non-performing	4,635	2,267		2,368
b) Doubtful	196			196
c) Restructured exposures				
d) Impaired past due exposures	6,428	625		5,803
e) Other assets	1,235,772		1,973	1,233,799
TOTAL A	**1,247,031**	**2,892**	**1,973**	**1,242,166**
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other	423			423
TOTAL B	**423**			**423**

The Bank did not purchase any impaired receivables.

A.1.7 Credit exposures for receivables and loans: change in gross impairments

Source/Category	Non-performing	Doubtful	Restructured exposures	Impaired Past due
A. Beginning gross impairments	**14,102**	**2,898**		**8,273**
- of which: receivables sold but not derecognized				
B. Increases	**723**	**55**		**5,460**
B.1 transfer from performing exposures	601			5,389
B.2 transfers from other impaired exposures				0
B.3 other increases	122	55		72
C. Decreases	**(10,189)**	**(2,757)**		**(7,306)**
C.1 transfer to performing exposures	(33)	(0)		(3,705)
C.2 derecognitions	(99)	(2)		(4)
C.3 collections	(9,417)	(2,751)		(3,575)
C.4 proceeds on sale				
C.4 *bis* losses on sale				
C.5 transfer to other impaired exposures	(639)	(4)		
C.6 other decreases	(1)	(0)		(21)
D. Ending gross impairments	**4,636**	**196**		**6,427**
- of which: exposures sold but not derecognized				

A.1.8 Credit exposures for receivables and loans: change in total impairments

Source/Category	Non-performing	Doubtful	Restructured exposures	Impaired Past due
A. Beginning total impairments	**2,281**	**4**		**12**
- of which: receivables sold but not derecognized				
B. Increases	**799**	**0**		**625**
B.1 impairment losses	799	0		5
B.1 bis losses on sale				
B.2 transfer from other impaired exposures				620
B.3 other increases				
C. Decreases	**(813)**	**(4)**		**(12)**
C.1 impairment reversals				
C.2 impairment reversals from collections	(41)	(4)		(12)
C.2 bis gains on sale				
C.3 derecognition	(100)			
C.4 transfer to other impaired exposures	(639)			
C.5 other decreases	(33)			
D. Ending total impairments	**2,267**	**0**		**625**
- of which: exposures sold but not derecognized				

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

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

Exposure	External rating class						No rating	Total
	Class 1	Class 2	Class 3	Class 4	Class 5	Class 6		
A. Balance sheet exposure		1,271,374					87,290	1,358,664
B. Derivatives								
B.1 Financial derivatives								
B.2 Credit derivatives								
C. Guarantees provided							445	445
D. Commitments to disburse funds								
E. Other								
Total		**1,271,374**					**87,735**	**1,359,109**

This table includes, under "Balance sheet exposure", the following items in the assets of the financial statements:
- item 20 - Financial assets held for trading - equal to €5 thousand;
- item 40 - Available-for-sale financial assets (only debt instruments) - equal to €81,992 thousand;
- item 60 - Due from banks - equal to €116,493 thousand;
- item 70 - Receivables and loans - equal to €1,160,174 thousand;

In order to assign a credit quality rating to the debtors, the Bank utilized the ratings compiled by the rating agency DBRS (the reference ECAI). A reconciliation between the risk classes and the ratings by DBRS are as follows.

Credit Quality Class	ECAI DBRS Rating's Limited
1	AAA to AAL
2	AH to AL
3	BBBH to BBBL
4	BBH to BBL
5	BH to BL
6	CCC

B. Distribution and concentration of credit exposures

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

	Governments			Other public sector entities		
Exposures/Counterparties	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. Balance sheet exposure						
A.1 Non-performing					955	
A.2 Doubtful						
A.3 Restructured exposures						
A.4 Past due exposures				5,798	625	
A.5 Other exposures	93,312		20	1,061,564		1,952
Total A	**93,312**		**20**	**1,067,362**	**1,580**	**1,952**
B. Off-balance sheet exposure						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures						
Total B						
Total (A+B) 2013	**93,312**		**20**	**1,067,362**	**1,580**	**1,952**
Total (A+B) 2012				**1,214,115**	**2,297**	**1,164**

Exposures/Counterparties	Financial companies			Insurance companies		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. Balance sheet exposure						
A.1 Non-performing						
A.2 Doubtful						
A.3 Restructured exposures						
A.4 Past due exposures						
A.5 Other exposures	71,449					
Total A	**71,449**					
B. Off-balance sheet exposure						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures	423					
Total B	**423**					
Total (A+B) 2013	**71,872**					
Total (A+B) 2012	**1,226**					

Exposures/Counterparties	Non-financial companies			Other entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. Balance sheet exposure						
A.1 Non-performing		914		2,368	398	
A.2 Doubtful	130	0		65	0	
A.3 Restructured exposures						
A.4 Past due exposures				5	0	
A.5 Other exposures	2,291		0	5,184		0
Total A	**2,421**	**914**	**0**	**7,622**	**398**	**0**
B. Off-balance sheet exposure						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures						
Total B						
Total (A+B) 2013	**2,421**	**914**		**7,622**	**398**	**0**
Total (A+B) 2012	**10,000**		**544**	**15,059**		**9**

B.2 Distribution by geographical area of credit exposures for receivables and loans on and off-balance sheet (carrying amount)

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
A. Balance sheet exposure										
A.1 Non-performing	2,368	2,267								
A.2 Doubtful	196									
A.3 Restructured exposures										
A.4 Past due exposures	5,803	625								
A.5 Other exposures	1,191,299	1,973	42,500							
Total A	**1,199,666**	**4,865**	**42,500**							
B. Off-balance sheet exposure										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures			423							
Total B			**423**							
Total (A+B) 2013	**1,199,666**	**4,865**	**42,923**							
Total (A+B) 2012	**1,235,900**	**4,014**	**4,500**							

Exposures/ Geographical area	Northwest Italy		Northeast Italy		Central Italy		South Italy and Islands	
	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses
A. Balance sheet exposure								
A.1 Non-performing	2,354	824			0	1,096	14	347
A.2 Doubtful	62	0			134	0		
A.3 Restructured exposures								
A.4 Past due exposures	5	0	11	0	4,270	622	1,517	3
A.5 Other exposures	158,455	222	114,908	206	478,424	720	439,512	825
Total A	**160,876**	**1,046**	**114,919**	**206**	**482,828**	**2,438**	**441,043**	**1,175**
B. Off-balance sheet exposure								
B.1 Non-performing								
B.2 Doubtful								
B.3 Other impaired assets								
B.4 Other exposures								
Total B								
Total (A+B) 2013	**160,876**	**1,046**	**114,919**	**206**	**482,828**	**2,438**	**441,043**	**1,175**
Total (A+B) 2012	**203,618**	**1,095**	**222,378**	**321**	**395,367**	**1,958**	**414,537**	**640**

B.3 Geographical breakdown of credit exposures with banks on and off-balance sheet (carrying amount)

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net expos.	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
A. Balance sheet exposure										
A.1 Non-performing										
A.2 Doubtful										
A.3 Restructured exposures										
A.4 Past due exposures										
A.5 Other exposures	116,493									
Total A	**116,493**									
B. Off-balance sheet exposure										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures	27									
Total B	**27**									
Total (A+B) 2013	**116,520**									
Total (A+B) 2012	**101,269**									

Exposures/ Geographical area	Northwest Italy		Northeast Italy		Central Italy		South Italy and Islands	
	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses	Net expos.	Total impairm. losses
A. Balance sheet exposure								
A.1 Non-performing								
A.2 Doubtful								
A.3 Restructured exposures								
A.4 Past due exposures								
A.5 Other exposures	27,972		39,831		45,313		3,377	
Total A	**27,972**		**39,831**		**45,313**		**3,377**	
B. Off-balance sheet exposure								
B.1 Non-performing								
B.2 Doubtful								
B.3 Other impaired assets								
B.4 Other exposures	5				22			
Total B	**5**				**22**			
Total (A+B) 2013	**27,977**		**39,831**		**45,335**		**3,377**	
Total (A+B) 2012	**63,189**		**11,869**		**25,290**		**921**	

B.4 Large exposures

At December 31, 2013, there are 19 "large exposures", that is, - as reported by Bank of Italy Circular 263 of December 27, 2006 *"New prudential supervision regulations for banks"*, and subsequent updates, risk positions equal to or higher than 10% of regulatory capital.

The nominal amount of these positions is €578,553 thousand for not weighted positions and €446,890 thousand for weighted positions.

However none of the positions exceed the individual limit of 25% of the regulatory capital of the Banking Group or 40% of the Regulatory Capital of the Bank.

C. Asset securitization and sales transactions

This section presents "qualitative" and "quantitative" information on the transactions for the securitization and the sales of assets put in place by the Bank.

C.1 – Securitization transactions

Information on the transaction with "Banca IMI - FF Finance S.r.l."

Qualitative information

Strategies, processes and objectives
In December 2013 the Bank renewed the securitization transaction put into place in the second half of 2011 with Banca IMI for another 18 months (to January 2016), with the sale of non-recourse receivables due from ASLs and AOs, aimed at the diversification of funding activities.

Characteristics of the transaction
The receivables were sold under ex Law 130/99 to a vehicle company, FF Finance S.r.l., which financed the purchase by issuing securities.

During the 18 months of the revolving phase of the transaction, revolving sales of receivables will be made against collections on the receivables in order to maintain the collateralization ratio established in the contracts.
At the end of the revolving period, there will be a 6-month amortization period in which there will be no new sales.

Description of the risk profile
Banca Farmafactoring, as the originator, although having sold the non-recourse receivables, is involved in the securitization transaction.
The transaction provides for a credit enhancement mechanism through an overcollateralization ratio (equal to 129.30% of the amount of the securities issued at December 31, 2013) and the subordinated loan carried by Banca Farmafactoring.
The vehicle, through the exercise of a put option, also has the option of transferring any outstanding receivables back to Banca Farmafactoring on the payment date of January 25, 2016.
Considering the above, all the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring itself and, therefore, the securitization risk is included in the credit risk.

Quantative information

Type of financial instruments held
The transaction was renewed in December 2013.
At the same time the structure of the securities was modified so that now there is a flexible structure on the basis of which it will be possible, consistent with the financial requirements of the

company, to repay the securities whenever there is an excess of liquidity in the vehicle company and, on request, also proceed to a new issue for the maximum amount of the securities held by Duomo Funding Plc.

In January 2014, the program was reduced from the original €200 million to €100 million.
The entire quota held by Banca Farmafactoring, equal to €100 million, purchased in the second half from Compass, the vehicle of WestLB Group, was reimbursed.

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.

With regard to all the sales of receivables made to FF Finance S.r.l., at December 31, 2013, the company managed a nominal outstanding amount of about €120.3 million.

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

Qualitative information

Strategies, processes and objectives
In October 2013, the securitization transaction with the Deutsche Bank Group for the non-recourse sale of receivables due from the ASLs and AOs was renewed, with the aim of diversifying funding activities.

Characteristics of the transaction
The receivables were sold under ex Law 130/99 to a vehicle company, Farmafactoring SPV I S.r.l., which financed the purchase by issuing securities for €150 million, subscribed to by Deutsche Bank AG.
The renewed structure provides for a revolving period of 12 months. During the 12 months of the transaction, revolving sales will be made against collections on receivables, in order to maintain the collateralization ratio established in the contract.
At the end of the revolving period there will be an amortization period in correlation to the residual life of the outstanding receivables up to the full reimbursement of the securities.

Description of the risk profile
Banca Farmafactoring, as the originator, although having sold the non-recourse receivables, is involved in the securitization transaction.
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 reimbursement of the securities and other senior expenses on the transaction, all the remaining amounts from the collection of the receivables sold, including late interest, 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.

Quantative 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.

With regard to all the sales of receivables made to Farmafactoring SPV I S.r.l., at December 31, 2013, the company managed a nominal outstanding amount of about €141.5 million.

Information on the transaction with "BayernLB - Farmafactoring SPV II S.r.l."

Informazioni di natura qualitativa

Strategies, processes and objectives
During the first quarter of 2013 the securitization transaction structured by the Bank with the Arranger Bank BayernLB AG was concluded. This is a transaction with an estimated term of 30 months, with the sale of non-recourse receivables due from ASLs and AOs, aimed at the diversification of funding activities.

Characteristics of the transaction
The receivables were sold under ex Law 130/99 to a vehicle company, Farmafactoring SPV II S.r.l., which financed the purchase by issuing securities for €70 million, subscribed to entirely by CORE-LUX, a vehicle of the BayernLB Group, using liquidity made available by BayernLB AG.

During the first 18 months of the transaction (which can be renewed annually), revolving sales will be made against collections on receivables, in order to maintain the collateralization ratio established in the contract.

At the end of the revolving period, there will be an amortization period of 12 months in which there will be no new sales.

Description of the risk profile
Banca Farmafactoring, as the originator, although having sold the non-recourse receivables, is involved in the securitization transaction.
The transaction provides for a credit enhancement mechanism through an overcollateralization ratio (equal to 129.87% of the amount of the securities issued) and the subordinated loan carried by Banca Farmafactoring.

The vehicle, through the exercise of a put option, also has the option of transferring any outstanding receivables back to Banca Farmafactoring in the 30th month.
Considering the above, all the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring itself and, therefore, the securitization risk is included in the credit risk.

Quantitative information

Type of financial instruments held
Banca Farmafactoring does not hold any financial instruments in connection 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.

With regard to all the sales of receivables made to Farmafactoring SPV II S.r.l., at December 31, 2013, the company managed a nominal outstanding amount of about €57.7 million.

C.1.1 Exposure arising from securitization transactions by quality of underlying assets

Quality of underlying assets/ Exposure	Balance sheet exposure						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.
A. With own underlying assets:																		
a) Impaired																		
b) Other	307,994	156,938																
B. With third-party underlying assets:																		
a) Impaired																		
b) Other																		

C.1.2 Exposure arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

Type of securitized assets/Exposure	Balance sheet exposure						Guarantees provided						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Net exposure	Impair. loss/rev.	Net exposure	Impair. loss/rev.	Net exposure	Impair. loss/rev.	Net exposure	Impair. loss/rev.	Net exposure	Impair. loss/rev.	Net exposure	Impair. loss/rev.
A. Full derecognition																		
B. Partial derecognition																		
C. Not derecognized	**156,938**	**(12)**																
C.1 FF Finance Srl - *Factoring*	116,120	93																
C.2 Farmafactoring SPVI - *Factoring*	28,018	(2)																
C.3 Farmafactoring SPVII - *Factoring*	12,800	(102)																

C.2 - Sales transactions

A. Financial assets sold and not totally derecognized

Qualitative information

The disclosure required by IFRS 7, paragraph 42D, letters a), b) and c) is provided below in respect of the nature of the assets transferred, the relationship between them and the associated liabilities and relative risks to which the Bank is exposed.

As previously described, at December 31, 2013, the following transactions are outstanding for the securitization of health care receivables sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale:

• in June 2011, the securitization transaction structured with Banca IMI and in which the receivables were sold to the vehicle company FF Finance S.r.l. and not derecognized from assets. With regard to this transaction, the amount of receivables sold but not derecognized amounts to €116,332 thousand;

• in October 2012, the securitization transaction structured with Deutsche Bank. Similarly to the transaction with the vehicle company FF Finance S.r.l., the receivables were sold to the vehicle company Farmafactoring SPV I S.r.l., and not derecognized from assets. With regard to this transaction, the amount of receivables sold but not derecognized amounts to €136,001 thousand;

• in the first quarter of 2013, another securitization transaction of health care receivables structured with BayerLB. Similarly to the previous transactions, the receivables were sold to the vehicle company Farmafactoring SPV II S.r.l., and not derecognized from assets. With regard to this transaction, the amount of receivables sold but not derecognized amounts to €56,224 thousand.

Quantitative information

C.2.1 Financial assets sold but not derecognized: carrying amount and total amount

	Financial assets held for trading			Financial assets measured at fair value through profit or loss			Available-for-sale financial assets			Financial assets held-to-maturity			Due from banks			Receivables and loans			Total	
Type/Portfolio	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	12.31.13	12.31.12
A. Balance sheet assets																**308,557**			**308,557**	**387,749**
1. Debt securities																				
2. Equity securities										X	X	X	X	X	X	X	X	X		
3. Units in investments funds										X	X	X	X	X	X	X	X	X		
4. Loans																308,557			308,557	**387,749**
B. Derivative instruments				X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		
Total 12.31.2013																**308,557**			**308,557**	
of which impaired																				
Total 12.31.2012																**387,749**				**387,749**
of which impaired																				

Key:
A = *financial assets sold and totally recognized (carrying amount)*
B = *financial assets sold and partially recognized (carrying amount)*
C = *financial assets sold and partially recognized (total amount)*

C.2.2 Financial liabilities compared to financial assets sold but not derecognized: carrying amount

Liabilities/ Assets portfolio	Financial assets held for trading	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Financial assets held-to-maturity	Due from banks	Receivables and loans	Total
1. Due to customers						**151,056**	**151,056**
a) related to assets totally recognized						151,056	151,056
b) related to assets partially recognized							
12.31.2013						**151,056**	**151,056**
12.31.2012						**224,761**	**224,761**

SECTION 2 – MARKET RISKS

2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General aspects

Banca Farmafactoring does not conduct trading activities on financial instruments. At December 31, 2013, the only positions included in the regulatory trading portfolio are represented by derivative contracts on interest rates which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of "hedging instrument". The market risk recognized by the Bank, therefore, refers to the market risk on positions relating to such derivative financial instruments.

The interest rate risk is represented by fluctuations in the level of market interest rates which may generate adverse effects on the income statement. The Bank's lending activities, represented by non-recourse receivables purchased, are at fixed rates whereas funding is generally at variable rates. The exposure is given by the amount of financing subject to this risk.

The amount of derivative instruments put into place to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be rendered at fixed rates, correlating the amount of the hedging to the portion of funding: in this sense, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the commission and the flows of correlated exposure so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contracted rate on all the derivative transactions.
At December 31, 2013, the balance of derivative hedging transactions is equal to €153 million.

Outstanding contracts

in euros

Transaction type	Underlyings Interest rates and debt securities			Residual life in days
	Notional amount	Fair value at 12.31.2013		
		Positive	*Negative*	
IRS plain vanilla, STEP-UP	153,000,000	4,877	(547,608)	218
Partial total	153,000,000	4,877	(547,608)	218
Total	**153,000,000**	**4,877**	**(547,608)**	**218**

B. Management processes and methods for measuring interest rate risk and price risk

Hedging strategies follow the trend of the Euribor rates and the expectations expressed by the market, implicit in the forward curve.
At December 31, 2013, the fair value of hedging instruments is negative for an amount of €543 thousand.

The fair value represents the value of the financial instrument. This value depends on the specific composition of the financial transaction and the structure of the market curves (rate curve and volatility curve) over time.
Each financial instrument structure, from the simplest to the most complex, can be separated or associated with one or more of the following listed below:
1) fixed-rate component, for which the cash flows generated by interest are calculated on the basis of the fixed rate, nominal amount and term. The fair value is equal to the sum of the discounted flows using the established discount factors;
2) variable-rate component, for which the forward rates are calculated on the basis of the discount factors curve. The cash flows of interest are estimated using the forward rates. The fair value is equal to the sum of the discounted cash flows.

At December 31, 2013, and due to the rising trend recorded by the interest rate curve, there is an improvement compared to the data at the end of the prior year (the fair value of the hedging instruments was a negative €2,244 thousand, with a positive impact on the income statements for €1,705 thousand), whereas there is a full correlation with the rates implicit in the lending transactions carried out during the same period.

The structure of the Bank's loans is represented by committed credit lines and ordinary credit lines.
The ordinary lines, equal to 22% of total credit lines, do not have fixed expiration dates and are used, according to treasury needs on average within three months. At the same time, the structured credit lines with expiry dates between 12 and 36 months provide in part for the possibility of drawing down revolving lines between one week and six months renewable each time until the expiry of the contract.

The capital requirement for the position risk, at December 31, 2013, equal to €893 thousand, is computed using the Maturity Ladder Approach, as reported in Bank of Italy Circular 263.
This system for measuring interest rate risk calls for the calculation of the net position relating to each issue, and the subsequent distribution, separately for each currency, over a time frame corresponding to the remaining life.
This is given by the sum of the remaining positions and netted positions, the latter weighted as established by the regulation.
Consistently with the above, the reduced exposure to risk does not require the use of control instruments other than those dedicated to ordinary business operations.

Quantitative information

1. Regulatory trading portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities and financial derivatives

Currency (242) EURO

Type/ Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	5 to 10 years	over 10 years	unspec. maturity
1. Balance sheet assets								
1.1 Debt securities								
- with prepayment option								
- other								
1.2 Other assets								
2. Balance sheet liabilities								
2.1 Repos								
2.2 Other liabilities								
3. Financial derivatives		**183,000**	**35,000**	**58,000**	**30,000**			
3.1 Physically settled								
- Options								
+ long positions								
+ short positions								
- Other derivatives								
+ long positions								
+ short positions								
3.2 Cash settled		183,000	35,000	58,000	30,000			
- Options								
+ long positions								
+ short positions								
- Other derivatives		183,000	35,000	58,000	30,000			
+ long positions		*153,000*						
+ short positions		*30,000*	*35,000*	*58,000*	*30,000*			

2.2 Interest rate risk and price risk - Banking portfolio

Qualitative information

A. General aspects, operational processes and methods for measuring interest rate risk

For purposes of the assessment of interest rate risk, 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 note on a timely and continual basis any loss in the present value of cash flows in consideration of:
• a market shock determined on the basis of the annual changes in the interest rates recorded during a six-year observation period;
• a shock of 200 basis points in the interest rates.

The sensitivity analysis of the interest rate requires the construction of a management framework so that the exposure can be highlighted. This is shown:
• in the liabilities, by the total amount of loans revalued in relation to the maturity of the single tranches of utilization and the exposure in derivatives;
• in the assets, by the lending represented by the 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.

The method used calls for:
• classification of the assets and liabilities in different time periods; the allocation to different time periods is made, for fixed-rate assets and liabilities, on the basis of their residual life; for variable-rate assets and liabilities, on the basis of the interest rate renegotiation date.
• weighting of the net exposures within each period: the asset positions and liability positions within each period are offset, obtaining a net position. Each net position, for each time period, is multiplied by the weighting factors, obtained as the product of the hypothetical variation in the rates (simulating a +200 basis point shock for all the maturities) 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 summed all together, obtaining a total weighted exposure.

The Total Weighted Exposure represents the change in the present value of cash flows, generated by the hypothetical interest rate scenario.
The situation resulting from the application of the framework for the management of interest rate risk, at December 31, 2013, presents a potential loss in the present value of cash flows, in the event of a market shock, equal to €6.4 million, and in the event of a shock of +200 basis points, equal to €13.8 million.

Interest rate risk is assumed in connection with the funding activity of Banca Farmafactoring 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 risk position is reported quarterly to senior management and the board of directors of the Bank, in accordance with the procedures set out by the Risk Management function for senior management.
Furthermore, at the level of operations, the Finance Department monthly monitors interest rate risk, as well its management, through *ad hoc* reporting.

C. Cash flow hedging operations

The amount of derivative instruments, for purposes of hedging, is determined so that a part of the funding originally at variable rates can be rendered at fixed rates, correlating the amount of the hedging to the portion of funding: in this sense, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the commission and the flows of correlated exposure so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contracted rate on all the derivative transactions.

Informazione di natura quantitativa

1. Portafoglio bancario: distribuzione per durata residua (per data di riprezzamento) delle attività e delle passività finanziarie

Currency: EURO

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	5 to 10 years	over 10 years	Unspec. maturity
1. Balance sheet assets	**331,098**	**87,045**	**177,385**	**335,635**	**426,738**	**758**		
1.1 Debt securities			69,619		12,373			
- with prepayment option								
- other			69,619		12,373			
1.2 Loans to banks	115,743	750						
1.3 Loans to customers	215,355	86,295	107,766	335,635	414,366	758		
- current account								
- other loans	215,355	86,295	107,766	335,635	414,366	758		
- with prepayment option								
- other	*215,355*	*86,295*	*107,766*	*335,635*	*414,366*	*758*		
2. Balance sheet liabilities	**456,859**	**416,879**	**255,000**					
2.1 Due to customers	251,908	72,379						
- current account								
- other payables	251,908	72,379						
- with prepayment option								
- other	*251,908*	*72,379*						
2.2 Due to banks	204,951	344,500	255,000					
- current account	9,951							
- other payables	195,000	344,500	255,000					
2.3 Debt securities								
- with prepayment option								
- 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 off-balance sheet transactions								
+ 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 Bank 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, 2013, the only derivative positions are represented by contracts on interest rates, included in the regulatory trading portfolio which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of "hedging instrument".

These instruments are illustrated in greater detail in this part, in paragraph 2.1 – Interest rate risk and price risk – Regulatory trading portfolio.

A. Financial derivatives

A.1 Regulatory trading portfolio: notional amounts at year end and average amounts

Underlyings/ Derivative type	12.31.2013		12.31.2012	
	Over the counter	Clearing house	Over the counter	Clearing house
1. Debt securities and interest rates	**153,000**		**278,000**	
a) Options				
b) Swaps	153,000		278,000	
c) Forwards				
d) Futures				
e) Other				
2. Equity securities 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				
Other underlyings				
Total	**153,000**		**278,000**	
Average amounts	**208,417**		**325,916**	

A.3 Financial derivatives: positive fair value – breakdown by product

Underlyings/ Derivative types	Positive fair value			
	12.31.2013		12.31.2012	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio	**5**			
a) Options				
b) Interest rate swaps	5			
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking portfolio – hedging derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking portfolio – other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**5**			

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

Underlyings/ Derivative types	Negative fair value			
	12.31.2013		12.31.2012	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio	**548**		**2,244**	
a) Options				
b) Interest rate swaps	548		2,244	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking portfolio – hedging derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking portfolio – other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total	**548**		**2,244**	

A.5 OTC financial derivatives - regulatory trading portfolio: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Govern. and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount			153,000				
- positive fair value			5				
- negative fair value			548				
- future exposure			150				
2) Equity securities and share indexes							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
3) Currency and gold							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
4) Other amounts							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							

A.9 OTC financial derivatives - residual maturity: notional amounts

Underlyings/Residual maturity	up to 1 year	over 1 year and up to 5 years	over 5 years	Total
A. Regulatory trading portfolio	**123,000**	**30,000**		**153,000**
A.1 Financial derivatives on debt securities and interest rates	123,000	30,000		153,000
A.2 Financial derivatives on equity securities and share indexes				
A.3 Financial derivatives on exchange rates and gold				
A.4 Financial derivatives on other amounts				
B. Banking portfolio				
B.1 Financial derivatives on debt securities and interest rates				
B.2 Financial derivatives on equity securities and share indexes				
B.3 Financial derivatives on exchange rates and gold				
B.4 Financial derivatives on other amounts				
Total 2013	123,000	30,000		153,000
Total 2012	105,000	173,000		278,000

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***: is the risk of mismatch between the amounts and/or the timing inflows and outflows.
• ***Liquidity Contingency Risk***: is the risk that future unexpected events may require a materially larger amount of liquidity than the business currently requires in a scenario as a normal going

concern. This risk may be generated by events such as failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or obtaining new loans in the event of a liquidity crisis.

• ***Market Liquidity Risk***: is the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions and is forced to keep them in the absence of the market itself.

• ***Operational Liquidity Risk***: is the risk of being unable to fulfill payment obligations due to errors, violations, interruptions or damages due to internal processes, persons or external events, while remaining solvent.

• ***Funding Risk***: is the risk of incurring a loss due to the inability to draw from sources of financing at an economical cost to meet obligations and/or the possible increase in the costs of funding due to a change in rating (internal factor) and/or a wider gap in the credit spreads (external factor).

The Bank, in accordance with Bank of Italy's regulation for prudential supervision, has adopted a risk management policy and a Treasury and Finance Regulation aimed at maintaining a high degree of diversification, in order to reduce liquidity risk, and of 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 responsibilities below.

In order to ensure control over the processes for the management and control of liquidity risk, the Bank has adopted a governance model based on the following principles:

• separation between the processes for the management of liquidity and processes for the control of liquidity risk;

• development of the processes for the management and control of liquidity risk, consistently with the hierarchy structure of the bank and through a process of the delegation of powers;

• sharing of the decisions and clarity of responsibilities among management, control and operations bodies;

• conforming the management and monitoring processes of liquidity risk with prudential supervisory indications.

Stress tests of liquidity risk are conducted for the purpose of evaluating the potential impacts of stress scenarios on the financial conditions of the Group.

Quantitative information

1. Time breakdown by contractual residual maturity of financial assets and liabilities

Currency: EURO

Items/Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	unspec. maturity
Balance sheet assets	**336.838**	**4.325**	**1.605**	**6.681**	**30.475**	**122.059**	**346.172**	**550.407**	**855**	
A.1 Government securities						12.554	448	68.000		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	336.838	4.325	1.605	6.681	30.475	109.505	345.724	482.407	855	
- due from banks	115.736	750								
- customers	221.102	3.575	1.605	6.681	30.475	109.505	345.724	482.407	855	
Balance sheet liabilities	**456.859**				**68.898**	**29.980**	**293.000**	**280.000**		
B.1 Deposits and current accounts due to	204.951				16.500	10.000	293.000	280.000		
- banks	204.951				16.500	10.000	293.000	280.000		
- customers										
B.2 Debt securities										
B.3 Other liabilities	251.908				52.398	19.980				
Off-balance sheet transactions	**552**									
C.1 Physically settled financial derivatives										
- long positions										
- short positions										
C.2 Cash settled financial derivatives	552									
- long positions	5									
- short positions	548									
C.3 Deposits and loans to be received										
- long positions										
- short positions										
C.4 Irrevocable commitments to disburse funds										
- long positions										
- short positions										
C.5 Financial guarantees provided										
C.6 Financial guarantees received										
C.7 Physically settled credit derivatives										
- long positions										
- short positions										
C.8 Cash settled credit derivatives										
- long positions										
- short positions										

3.2 Disclosure about encumbered assets recognized in the financial statements

Type	Encumbered		Unencumbered		Total 2013	Total 2012
	CA	FV	CA	FV		
1. Cash and cash balances		X	1	X	1	2
2. Debt securities	15,903	15,903	66,089	66,089	81,992	
3. Equity securities			23	23	23	23
4. Loans	308,557	X	968,110	X	1,276,667	1,341,669
5. Other financial assets		X	5	X	5	-
6. Non-financial assets		X	74,605	X	74,605	57,833
Total 2013	**324,460**	**15,903**	**1,108,833**	**66,112**	**33,293**	X
Total 2012	**387,749**	**-**	**1,011,778**	**23**	X	**1,399,527**

Encumbered debt securities for €15,903 thousand consist of government securities to guarantee e-MID operations.

Encumbered loans for €308,557 thousand refer to receivables sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale. The amount refers to the aforementioned three securitization transactions on health care receivables.

3.3 Disclosure about own encumbered assets not recognized in the financial statements

Type	Encumbered	Not encumbered	Total 2013	Total 2012
1. Financial Assets		100,000	100,000	100,000
- Securities		*100,000*	*100,000*	*100,000*
- Other				
2. Non-financial assets				
Total 2013		**100,000**	**100,000**	X
Total 2012		**100,000**	X	**100,000**

The amount refers to the nominal amount of the securities, relating to the securitization transaction with "Banca IMI and WestLB - FF Finance S.r.l.", repurchased by Banca Farmafactoring during the second half of 2012 after WestLB Group's manifested its interest to sell the securities.
In January 2014, the program was reduced from the original €200 million to €100 million and the entire quota held by Banca Farmafactoring was reimbursed.

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 which would not be significant individually unless analyzed together and quantified for the entire category of risk.

In Banca Farmafactoring, the exposure to this category of risk can be generated predominately by failures in the working process and in the organization and governance – human errors, malfunctioning of computer applications, inadequate organizational management and control – as well as any loss of human resources in key positions within corporate management. Exposures to operational risks deriving from external sources, instead, appear to be of negligible importance, partly in view of the mitigation tools adopted to meet such 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 aimed at managing risk and defining the proper standards and incentives with the aim of adopting professional and responsible behavior.

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 the Bank of Italy.

As regards the controls put in place over the exposure to operational risk, the Bank also monitors the following specific risks:

- 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.

Banca Farmafactoring computes the capital requirement on operational risk using the Basic Indicator Approach - BIA, by applying a regulatory coefficient to an indicator of the volume of the Bank's operations.

Furthermore, the Bank assesses operational risks in connection with new products, activities, relevant processes and systems and mitigates the consequence of any operational risk that may arise through preventive involvement of the corporate control functions and drawing up specific policies and regulations on various subjects and topics.

To control the above risks *ad hoc* organizational models have also been adopted by the Bank 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, 2013 is equal to €14,939 thousand.

Part F - Equity

Section 1 - Equity

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 aggregate equity relevant is calculated on the basis of the existing instructions of Bank of Italy and constitutes the basis of reference of the prudential supervision regulations.

B. Quantitative information

B.1 Equity: breakdown

Items/Amount	12.31.2013	12.31.2012
1. Share capital	130,900	130,900
2. Share premium		
3. Reserves		
- profit		
a) legal	19,044	16,222
b) statutory		
c) treasury shares		
d) other	31,552	31,475
- other		
4. Equity instruments		
5. (Treasury shares)		
6. Valuation reserves		
- Available-for-sale financial assets	396	
- Property, plant and equipment		
- Intangible assets		
- Hedges of foreign investments		
- Cash flow hedges		
- Foreign exchange differences		
- Non-current assets held for sale		
- Actuarial gains/losses relating to defined benefits plans	(1)	
- Share of valuation reserves from investments accounted for using the equity method		
- Special revaluation laws	3,823	3,823
7. Profit (loss) for the year	48,890	56,449
Total	**234,605**	**238,869**

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

Assets/Amount	12.31.2013		12.31.2012	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	396			
2. Equity securities				
3. Units in investments funds				
4. Loans				
Total	396			

Available-for-sale financial assets are recognized at amortized cost. At the end of the year, the securities are measured at fair value and the difference is recognized in equity in the valuation reserves. A positive change of €396 thousand was recognized in the valuation reserve at December 31, 2013 as a result of this measurement.

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

Attività/Valori	Debt securities	Equity securities	Units in investment funds	Loans
1. Beginning balance	0			
2. Positive changes				
2.1 Increases in fair value	396			
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				
3.4 Other changes				
4. Rimanenze finali	396			

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, now requiring their immediate recognition in comprehensive income for the year.
The results of the actuarial valuation reflect the impact of Law 296/2006 and the calculation, for purposes of IAS 19, refers solely to employee severance indemnity accrued and not transferred to supplementary pension funds or to the INPS treasury fund.
IAS 19 revised generated a negative change in the valuation reserves of approximately €1 thousand.

Section 2 - Equity and banking regulatory ratios

2.1 Regulatory Capital

A. Qualitative information

Regulatory Capital represents the first line of defense against risks associated with overall financial activities and constitutes 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.

Regulatory Capital is composed of Tier 1 Capital plus Tier 2 Capital, net of items to be deducted and IAS/IFRS prudential filters.

The main elements which are comprised in Regulatory Capital are the following:

1.Tier 1
Tier 1 positive items:
- Share capital paid-in;
- Reserves (legal reserve, extraordinary reserve, retained earnings);
- Profit for the year.

Tier 1 negative items:
- Other intangible assets

2. Tier 2
Tier 2 positive items:
- Valuation reserves: property, plant and equipment used in the business
- Valuation reserves: available-for-sale financial assets;
- Valuation reserves: actuarial gains (losses) relating to defined benefit plans;
- Valuation reserves: special revaluation laws.

Items to be deducted:
• Non-calculable quota of the valuation reserve on property, plant and equipment used in the business (IAS/IFRS prudential filters).

3. Tier 3
At December 31, 2013, there are no equity items that qualify as Tier 3.

B. Quantitative information

	12.31.2013	12.31.2012
A. Tier 1 before prudential filters	**182,855**	**180,198**
B. Tier 1 prudential filters:		
B.1 - Positive IAS/IFRS prudential filters (+)		
B.2 - Negative IAS/IFRS prudential filters (-)		
C. Tier 1 gross of items to be deducted (A+B)	182,855	180,198
D. Items to be deducted from Tier 1		(3,147)
E. Total TIER 1 (C-D)	**182,855**	**177,051**
F. Tier 2 before prudential filters	**4,020**	**3,823**
G. Tier 2 prudential filters:		
G.1 - Positive IAS/IFRS prudential filters (+)		
G.2 - Negative IAS/IFRS prudential filters (-)		
H. Tier 2 gross of items to be deducted (F+G)	**4,020**	**3,823**
I. Items to be deducted from Tier 2		(3,147)
L. Total TIER 2 (H-I)	**4,020**	**676**
M. Items to be deducted from Tier 1 and Tier 2		
N. Regulatory capital (E+L-M)	**186,875**	**177,727**
O. TIER 3	0	0
P. Regulatory capital included in TIER 3 (N+O)	186,875	177,727

The increase in Regulatory Capital compared to the prior year is due to both undistributed earnings and the controlling investment in Farmafactoring España S.A. which, as a financial intermediary, had been deducted for 50% from Tier 1 and 50% from Tier 2.

As a bank, parent of the banking group which includes Farmafactoring España S.A., Banca Farmafactoring is no longer required to make this deduction, equal to approximately €6.3 million, from individual Regulatory Capital.

In reference to the contents of Bank of Italy Circular 285 of December 17, 2013 – Section 11, Paragraph 2, last paragraph, wherein it is stated that "the banks may exclude unrealized gains or losses in any element of Own Funds relating to exposures with the central administrations classified in the "Available-for-sale" category of IAS 39 approved by the UE", and on the basis of the option allowed by Bollettino di Vigilanza no. 12 of December 2013, in the paragraph relating to "Regulation on Own Funds, the exercise of such option was approved by the board of directors of Banca Farmafactoring on January 24, 2014.

Accordingly, beginning January 1, 2014 and until the end of the transitional period, Banca Farmafactoring will exclude from Own Funds unrealized gains or losses relating to exposures with the central administrations.

2.2 Capital adequacy

A. Qualitative information

Compliance with capital adequacy limits, for the Tier 1 Capital Ratio and the Total Capital Ratio is constantly monitored by the competent corporate bodies.
The Tier 1 Capital Ratio is the ratio of Tier 1 capital to the amount of Risk-Weighted Assets.
The Total Capital Ratio is the ratio of Regulatory Capital to the amount of Risk-Weighted Assets.

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – *"The Financial Statements of Banks: layout and preparation"* and subsequent updates, the amount of risk-weighted assets is determined as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).
In the previous year, the amount of risk-weighted assets was calculated as the product of the total of prudential capital requirements and 16.67 (the inverse of the minimum obligatory ratio equal to 6%, established for banks).

The reduction in risk-weighted assets compared to the prior year is mainly attributable to the decision taken by Banca Farmafactoring to change the ECAI ratings agency to Dominion Bond Rating Service (DBRS) and replace Moody's Investor Service starting from the June 2013 rating date.

The unsolicited rating of the Republic of Italy by DBRS is 'A low' and therefore the receivables exposure by the Bank from the Public Administration falls into Credit Quality Class 2, with a risk weight equal to 50%.
It was deemed that such value was a better representation – compared to a 100% risk weight in the Credit Quality Class 3 assigned by Moody's Investor Services – of the risks effectively attributable to the counterparties of the Public Administration.

Furthermore, in computing the risk-weighted assets, the individual capital requirements to meet the counterparty, market and operational credit risks are reduced by 25% as set out in Bank of Italy Circular 263, which permits this reduction for banks belonging to a banking group.

Banca Farmafactoring's total exposure to risks at December 31, 2013, in relation to its business, is adequate according to the level of capitalization and the profile of risk identified.
The regulatory capital ratios are 28.4% for the Tier 1 Capital Ratio and 29.0% for the Total Capital Ratio.

Pillar I – Capital adequacy to meet 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 ratios 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 Regulatory Capital and capital requirements reporting, 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 by virtue of the provisions of Bank of Italy's 8th update of Circular 263 *"New prudential supervision regulations for banks"*.
• 50% for receivables from the Public Administration (which include those from AOs in the National Health System and ASLs) except for exposures with an original term equal to or less than three months for which a weighting is applied of 20%;
• 50% for receivables from supervised intermediaries except for exposures with an original term equal to or less than three months for which a weighting is applied of 20%;
• 100% for receivables from private debtors;
• 100% for property, plant and equipment, investments and other assets;
• 150% for past due receivables.

Banca Farmafactoring constantly maintains, as a capital requirement against credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposure to credit risk.

Capital requirement = 8% RWA

The Risk-Weighted Amount is determined by the sum of the risk-weighted assets of the various classes.

Counterparty risk

Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions put in place with a specific counterparty have a positive value in the event of insolvency.

For the Bank, the counterparty risk is represented only by derivative contracts put in place with the aim of hedging 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 applying a 15% coefficient to the three-year average of operating income taken from the financial statements for the last three years, according to the formats of Bank of Italy (Circular 263 of December 27, 2006 – 13th update of May 29, 2012 *"New prudential supervision regulations for banks"*).

Market risk

The Bank measures market risk using the "Standard" method outlined in Bank of Italy's Circular 263. The regulation identifies and regulates the treatment of the various types of market risk in refer to the regulatory trading portfolio. At December 31, 2013, the only positions included in the regulatory trading portfolio are represented by derivative contracts on interest rates which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of "hedging instrument".

Pillar II –The ICAAP Summary

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

The Bank presents the "ICAAP summary" by April 30, 2014 to Bank of Italy showing the updated risk management system for the determination of the adequacy of capital.

BANCA FARMAFACTORING

B. Quantitative information

Categories/Amounts	Unweighted assets		Weighted assets/requirements	
	12.31.2013	12.31.2012	12.31.2013	12.31.2012
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK				
1. Standardized approach	1,420,285	1,392,651	659,838	832,441
2. Internal rating based (IRB) approaches				
2.1 Basic indicator approach				
2.2 Advanced measurement approach				
3. Securitizations				
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 CREDIT AND COUNTERPARTY RISK			**52,787**	**79,056**
B.2 MARKET RISK				
1. Standardized approach			893	
2. Internal models				
3. Concentration risk				
B.3 OPERATIONAL RISK				
1. Basic indicator approach			14,939	14,511
2. Standardized approach				
3. Advanced measurement approach				
B.4 OTHER CAPITAL REQUIREMENTS				
B.5 OTHER CALCULATION ELEMENTS			**(17,155)**	
B.6 TOTAL CAPITAL REQUIREMENTS			**51,465**	**93,567**
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			643,306	1,559,762
C.2 Tier 1/Risk-weighted assets *(Tier 1 capital ratio)*			28.4%	11.4%
C.3 Regulatory capital including Tier 3 / Risk-weighted assets *(Total capital ratio)*			29.0%	11.4%

The reduction in risk-weighted assets compared to the prior year is mainly attributable to the decision taken by Banca Farmafactoring to change the ECAI ratings agency to Dominion Bond Rating Service (DBRS) and replace Moody's Investor Service starting from the June 2013 rating date.

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%.
It was believed that this value was more representative – compared to a weighting of 100% for Class 3 fixed by Moody's Investor Services – of the effective risks attributable to the counterparties of the Public Administration.

Furthermore, in computing the risk-weighted assets, the individual capital requirements to meet the counterparty, market and operational credit risks are reduced by 25% as set out in Bank of Italy Circular 263, which permits this reduction for banks belonging to a banking group.

Part H - Related Party Transactions

1. Information on compensation to key managers

- Compensation to the directors: €1,821 thousand
- Compensation to the board of statutory auditors: €192 thousand

The following table shows the number of shares held by directors and executives in the companies FF Holding S.p.A. and Farma Holding S.a.r.l; the shares were purchased at their fair value.

	Number of shares	Company
Directors and executives	59,071	FF Holding S.p.A.
Directors	780	Farma Holding S.a.r.l.

2. Information on related party transactions

Beginning in 2007, FF Holding S.p.A. (as the consolidating company) and Banca Farmafactoring S.p.A. (as the consolidated company), after jointly opting to be taxed as a group, calculate the taxable profit on a consolidated basis pursuant to article 117 and subsequent articles of D.P.R. 917 of December 22, 1986.
On June 11, 2013, the option to be taxed as a group for a three-year period was renewed by communication to the Tax Revenue Agency.
The tax assets and liabilities relating to the IRES income tax on the profit of the companies shown in Section 13 of the balance sheet refer to payables and receivables with the parent, FF Holding S.p.A.
The Bank carries a loan receivable from the parent, FF Holding S.p.A., for €2.5 million, drawn for €1.7 million, due by contract on December 31, 2014 and regulated on an arm's length basis.
In 2013 administrative services were provided to FF Holding S.p.A. for consideration, including VAT, of €24.4 thousand.

Furthermore the Bank also has factoring and mandate arrangements for the management and collection of receivables with shareholder companies carried out on an arm's length basis.

There is a license agreement with the subsidiary Farmafactoring España S.A. This agreement covers the IT user rights to the software, organizational methods and communication lines of Banca Farmafactoring (IT rights), as well as the assistance, maintenance and monitoring of the IT rights themselves. Royalties are paid as consideration and, for the year 2013, amounted €250 thousand.

Beginning July 2013, Banca Farmafactoring extended five loans to the subsidiary Farmafactoring España S.A., which are regulated on an arm's length basis, for a total of €56.5 million. After repayments made by the subsidiary, the loans outstanding at December 31, 2013 total €42.5 million.

On December 17, 2013, a guarantee of €423 thousand was provided to Farmafactoring España S.A. to support the legal action taken against assigned debtors of the subsidiary. The commission component of the guarantee is calculated on an arm's length basis.

On July 11, 2013, the board of directors of Farmafactoring España S.A. approved the Reporting Package containing the guidelines for the exchange of flows of information needed for the preparation of the consolidated financial statements and regulatory reporting.

The ordinary shareholders' meeting of Farmafactoring España held on March 20, 2014 approved the financial statements at December 31, 2013. Thanks to higher volumes brokered, the subsidiary reported its first earnings since the formation of the company, in the amount of €22 thousand. The losses reported during the start-up phase are not considered permanent and therefore no impairment loss was recognized on the investment.

BANCA FARMAFACTORING

03 BOARD OF STATUTORY AUDITORS' REPORT

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

Board of Statutory Auditors' Report on the Financial Statements for the year ended December 31, 2013 of Farmafactoring S.p.A.

Dear Shareholders,

This report covers the monitoring and control activities performed by the board of statutory auditors of Banca Farmafactoring S.p.A. for the year ended December 31, 2013, the first in which banking activities have been carried out following the authorization issued by the Bank of Italy with effect from July 3, 2013.
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 company'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 of the Italian Civil Code 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 Operational Unit and with the supervisory body of Banca Farmafactoring S.p.A. is 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.

Significant events in the year

During 2013 the process to transform Farmafactoring S.p.A. into a bank was successfully completed. After the authorization was received from the Bank of Italy to exercise banking activities, with effect from July 3, 2013, the company changed its business purpose and was registered as Banca Farmafactoring S.p.A. in the National Register of Banks. As of the same date, the Bank was recorded in the Register of Banking Groups, pursuant to art. 64 of Legislative Decree 58/98, under the name of the Banca Farmafactoring Banking Group with Banca Farmafactoring S.p.A. as the head of the group. Following the transformation into a bank, the migration of the data to the new CSE outsourcing platform for the management of banking services was completed.

In order to satisfy the request formulated by the Bank of Italy in the Order of Authorization to exercise banking activities, in 2013 the technical means were established through which to execute the request for the simplification of the chain of control which, in 2014, will lead to the merger of the parent FF Holding S.p.A. with and into the subsidiary Banca Farmafactoring S.p.A.. This merger was identified as the best alternative for achieving the simplification request and avoid an interruption in the operations of Banca Farmafactoring S.p.A.

With the issue of the 15th update of Circular 263/2007 New prudential supervision regulations for banks", Bank of Italy requires a complete review and update of the corporate governance structure with reference to internal controls, information systems and going concern. The deadline for the completion of the changes that are necessary is at varying dates, depending on the topic, up to July 1, 2016. The board of directors promptly began the activities for a self-assessment of the existing system (a gap analysis) and sent the report to Bank of Italy by the established deadline of January 31, 2014.

Control and monitoring activities on the organizational structure

The board has acquired information and monitored, as far as its responsibilities are concerned, the adequacy of the organizational structure adopted by the company and its actual functioning, through meetings and direct observations and through the gathering of information from the persons in charge. In particular, through the course of the year the board has followed the evolution of the organizational structure as a result of the transformation to a bank, monitoring the development of internal control activities and risk management. It should be mentioned that the Bank has resolved to separate the second-level control activities, separating the Risk Management, Compliance and Anti-Money Laundering functions into two distinct organizational units: the Risk Management and Anti-Money Laundering (AML) Organizational Unit and the Compliance Organizational Unit. Even after these changes and taking into consideration the so-called principle of proportionality we believe that the organizational structure is adequate for the needs of the Bank.

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

The board has monitored the administrative and accounting system adopted, as well as its reliability to properly represent the operating events and to this end we have no particular matters to report.
Banca Farmafactoring S.p.A. prepares its financial statements in accordance with IAS/IFRS including IFRIC interpretations issued by the IASB and approved by the European Commission. Moreover, following its transformation into a bank, the financial statements have been prepared in conformity with the provisions of Bank of Italy Circular 262/2005 and subsequent updates.
The board has examined the report on the financial statements issued by the audit firm which expressed an unqualified opinion, without exceptions. The same report also expresses an opinion on the consistency of the Report on Operations with the financial statement documents, as established by art. 14, paragraph 2, letter e) of Legislative Decree 39/2010.

The board has proceeded, during the course of the year, with the customary exchange of information with the firm charged with the accounting control, through joint meetings, and at the conclusion of which there were no critical matters that should be mentioned in this report.
In 2013, 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 observance of the principles of proper administration.

Control and monitoring activities on the system of internal control

The board has taken part in the shareholders' meetings and meetings of the board of directors and the Credit Committee, 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 company, and, in this regard there are no significant matters to report.
The board has also monitored the implementation of the ICAAP process, in concert with the person in charge of internal control, which has been designed according to the guidelines set out by the Bank of Italy.
The board has 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 231/01 and also monitored the requisites of efficiency and independence related thereto, through meetings and direct participation in the work itself.
During the course of the year, the board has also maintained a continuous exchange of information with the members of the board of statutory auditors of the parent FF Holding S.p.A.
In 2013, neither petitions nor complaints have been received or has the board of statutory auditors issued opinions pursuant to the law.

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 2013 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.

The board was therefore constantly kept updated by the Internal Audit Organizational Unit about the activities carried out, in line with the established verification plan for 2013.
With reference to the monitoring and control activities over anti-money laundering, in 2013 the board was informed through the report on the activities performed by the Risk Management and Anti-Money Laundering Operational Unit and through periodic updates received during the meetings of the board.
As for the function conducted as the Committee for the control of the audit, we would like to remind you that PricewaterhouseCoopers S.p.A. has been appointed for the audit for the nine years 2012–2020 following the resolution passed by the ordinary shareholders' meeting on May 3, 2012.
The board, in order to carry out its work independently, asked the audit firm to provide disclosure on the following:

(i) the audit plan for the financial statements at December 31, 2013 of Banca Farmafactoring S.p.A.;
(ii) the independence of the audit firm particularly in relation to the non-audit services rendered to the entity or to the companies controlled by it or which control it or that are under joint control;
(iii) the report by the audit firm required by art. 19, paragraph 3 of Legislative Decree 39 of January 27, 2010.
(iv) the audit firm, on April 11, 2014, has confirmed its independence in writing to the Committee, giving information on the non-audit services provided in 2013 to the company or to the companies of the Group, and also by entities in its same network.

The activity carried out did not indicate situations that could undermine the independence of the auditors or other critical areas required to be reported.

Monitoring and control activities over related party transactions

During the course of the year, the board has not noted the existence of atypical and/or unusual transactions with related parties, intragroup, or with other parties, nor have we had indications in that sense from the board of directors or the independent auditors.
The transactions between the company and its Shareholder and between the company and its subsidiary are based on ordinary operating activities and are in the interests of the company, 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.

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 business 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.

Taking into account that the report issued by the independent auditors on April 11, 2014 expresses an unqualified opinion, without exceptions, the board of statutory auditors, on the basis of the draft financial statements at December 31, 2013, has no reasons to oppose the approval of the financial statements at December 31, 2013 and expresses a favorable opinion on the motion for the appropriation of the profit for the year proposed by the board of directors.

Milan, April 11, 2014

The Board of Statutory Auditors

Franceso Tabone

Luca Simone Fontanesi

Marcello Priori

04 INDEPENDENT AUDITORS' REPORT

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

To the Shareholders of
Banca Farmafactoring SpA

1 We have audited the financial statements of Banca Farmafactoring SpA which comprise the balance sheet, the income statement and the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the related notes as of 31 December 2013. The directors of Banca Farmafactoring SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present, for comparative purposes, the previous year figures. As reported in the notes to the financial statements, the directors, following the transformation into a bank which took in place during 2013, have reclassified comparative data of the prior year in accordance with the schemes and rules for preparation of bank financial statements provided by Bank of Italy Circular n. 262 of 22 December 2005 and subsequent updates, compared to the data previously presented and audited by us, on which we issued the audit report dated 8 April 2013. The methods of restatement of comparative information and disclosures presented in the notes to the financial statements have been audited by us for the purpose of expressing an opinion on the financial statements for the year ended 31 December 2013.

3 In our opinion, the financial statements of BancaFarmafactoring SpA as of 31 December 2013 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations, the changes in shareholders' equity and cash flows of Banca Farmafactoring SpA for the period then ended.

4 The directors of Banca Farmafactoring SpA are responsible for the preparation of a report on operations in compliance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard No. 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by CONSOB. In our opinion, the report on operations is consistent with the financial statements of Farmafactoring SpA as of 31 December 2013.

Milano, 11 April, 2014

PricewaterhouseCoopers SpA

Signed by

Marco Palumbo
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statement refer to the Financial Statement in original Italian and not to their translation.

Resolutions of the Ordinary Shareholders' Meeting

The ordinary shareholders' meeting, which met in second call on May 6, 2014, approved the financial statements for the year ended December 31, 2013, consisting of the balance sheet, income statement and notes, 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, and appropriated the profit for the year of Euros 48,890,449 as follows:

- to the legal reserve, the amount of Euros 2,444,522;
- to dividends, the amount of Euros 27.30 for each of the 1,700,000 outstanding shares, equal to a total of Euros 46,410,000;
- to retained earnings, the remaining amount of Euros 35.927.

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