



GRUPPO BANCARIO

BANCA
FARMAFACTURING

2013 CONSOLIDATED
ANNUAL REPORT

Banking Group Banca Farmafactoring S.p.A.
Registered Office and Headquarters
Via Domenichino, 5 - 20149 Milan
Telephone +39 02 49905.1 Fax +39 02 4818157

REPORT ON OPERATIONS
CONSOLIDATED FINANCIAL STATEMENTS 2013

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Contents

01	REPORT ON OPERATIONS	
	General Economic Overview _____	9
	The International Economic Scenario _____	9
	The Italian Economy in 2013 and Forecasts for 2014; Comments on the Spanish Economy _____	10
	The National Health System in Italy in 2013 and Forecasts for 2014; Comments on the National Health System in Spain _____	12
	Business Developments of the Banking Group _____	15
	Performance by the Banca Farmafactoring Group in 2013 compared to 2012 _____	17
	Internal Control _____	22
	Systems Development _____	24
	Change in Staff Headcount _____	25
	Transactions with the Parent and Related Parties _____	25
	Business Outlook _____	26
	Accounting Principles _____	27
	Reclassified Consolidated Balance Sheet _____	28
	Reclassified Consolidated Income Statement _____	29
	Comments on the Reclassified Consolidated Balance Sheet _____	30
	Comments on the Reclassified Consolidated Income Statement _____	38
	Objectives and Policies on the Assumption, Management and Hedging of Risks _____	41
	Reconciliation between the Equity and Profit for the Year of the Parent and the Consolidated Figures of the Group _____	46
	Other Information Required by art. 2428 of the Italian Civil Code _____	47
	Appropriation of the Profit of the Banking Group _____	47
	Motion for the Appropriation of Profit of Banca Farmafactoring _____	48
02	CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2013	
	Consolidated Balance Sheet _____	50
	Consolidated Income Statement _____	52
	Consolidated Statement of Comprehensive Income _____	53
	Consolidated Statement of Changes in Equity _____	54
	Consolidated Statement of Cash Flows _____	56
	Notes to the Consolidated Financial Statements _____	58
	Part A - Accounting Policies _____	58
	Part B - Balance Sheet _____	71
	Part C - Income Statement _____	103
	Part D - Comprehensive Income _____	115
	Part E - Information on Risks and related Risk Management Policies _____	116
	Part F - Shareholders' Equity _____	160
	Part H - Related Party Transactions _____	170
	Part L - Segment reporting _____	172
03	INDEPENDENT AUDITORS' REPORT _____	173

Board of Directors of the Parent Company

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 of the Parent Company

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 settling 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% growth 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; Comments on the Spanish Economy

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 up-

ward 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.

In Spain in 2013 GDP recorded a contraction of 1.3%. A slight recovery was posted in the last quarter owing to an internal demand burdened by fewer difficulties and a positive contribution by exports.

In December 2013 inflation on an annual basis in Spain was reported at 0.25% compared to 2.9% in the prior year. The employment rate at the end of December was 25.8% and continues to be highest in Europe with the exception of Greece.

The National Health System in Italy in 2013 and Forecasts for 2014; Comments on the National Health System in Spain

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.

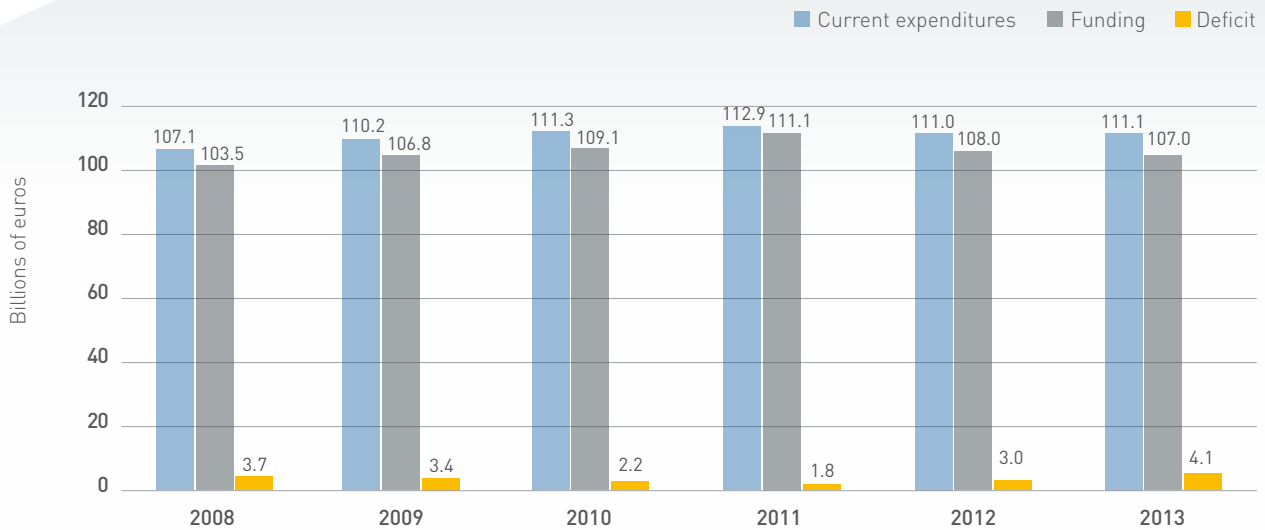
Currently, 8 of the 20 regions are committed to this procedure. The regions of Lazio, Abruzzi, Molise, Campania and Sicily – involved since 2007 and which, since the structural causes of the imbalance have not yet been removed, have had to extend their commitment – are now joined by Calabria, Piedmont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



The health care system in Spain, in contrast to the system in Italy, is managed at a central level by 17 *Comunidad*, which establish the respective expenditure budget.

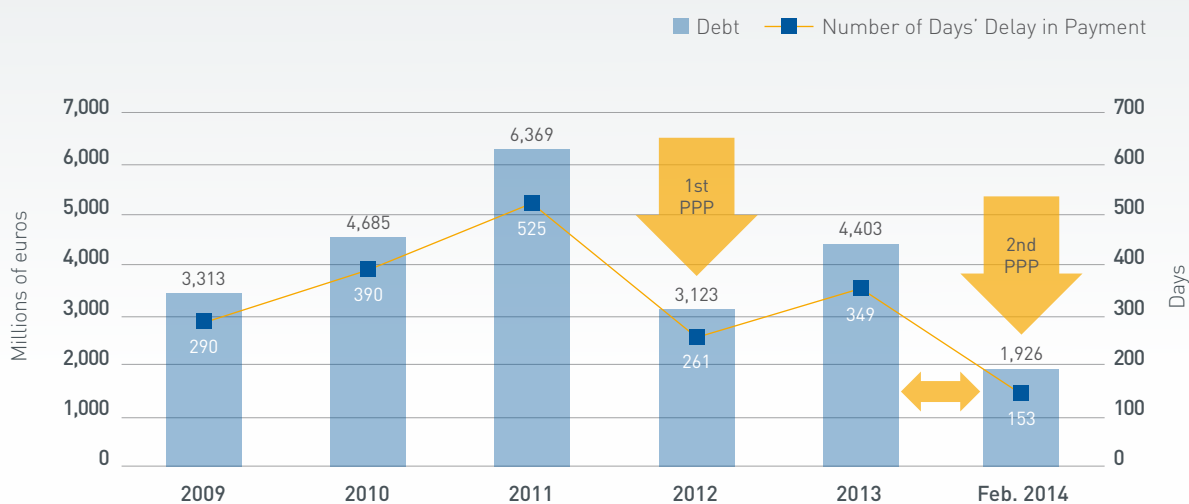
Beginning in 2012, the Spanish government set in motion two actions to reduce health care payables and the number of days' delay in payment.

The first, named the *Fondo de Liquidez Autonómico* (FLA) which, for the purpose of rendering the *Comunidad* less dependent on the financial markets, extended a line of credit, substantially restructuring the debt of the *Comunidad*.

The second, named *Plano Especial de Pago* (PPP), in two stages, had the purpose of paying off unpaid trade receivables due from the *Comunidad* and therefore from the National Health Service. This made it possible to reduce outstanding health care trade payables which went from more than €6 billion in 2011 to approximately €2 billion at the beginning of 2014, reducing the number of days' delay in payment during the same period from 525 to 153.

The government announced that there will be no further actions taken so operators are expecting an increase in the number of days' delay in payment compared to the current number.

Effects of PPP on Spanish health care debt and the number of days delay in payment



Source: Estimaciones Farmaindustria a partir de Encuesta de Deuda Hospitalaria

Business Developments of the Banking Group

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, with effect from July 3, 2013 the company changed its business purpose and was registered as Banca Farmafactoring in the National Register of Banks.

As of same date of July 3, 2013 Banca Farmafactoring was recorded in the Register of Banking Groups, pursuant to art. 64 of the Consolidated Law on Banking, as the head of the Banca Farmafactoring Banking Group.

Besides the parent, Banca Farmafactoring, the Banking Group also includes Farmafactoring España S.A. (a wholly-owned subsidiary of Banca Farmafactoring) and three special purpose entities, FF Finance S.r.l., Farmafactoring SPV I S.r.l. and Farmafactoring SPV II S.r.l.

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 as 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 excel-

lent 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 trends which the Italian, Spanish and international economies have experienced since 2011, continued into 2013.

Notwithstanding this difficult context, the Banca Farmafactoring Banking Group reported a profit of €48.9 million, despite the application, in Italy, 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 Group 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 Banca Farmafactoring 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 billion available to the Public Administration to pay its outstanding payables, of which about €14 billion is earmarked for Health Services.

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

The capital ratios of the Group, i.e. Tier 1 Capital Ratio and Total Capital Ratio, that thus derive, are equal to 21.0% and 21.5%, respectively.

However, even if the weighting coefficients applied to the receivables from the Italian Public Administration are kept at 100%, the capital adequacy ratios would be considerably higher than the required limits, at 13.1% for the Tier 1 Capital Ratio and 13.4% 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 Group's activities and the key balance sheet and income statement figures.

Performance by the Banca Farmafactoring Group in 2013 compared to 2012

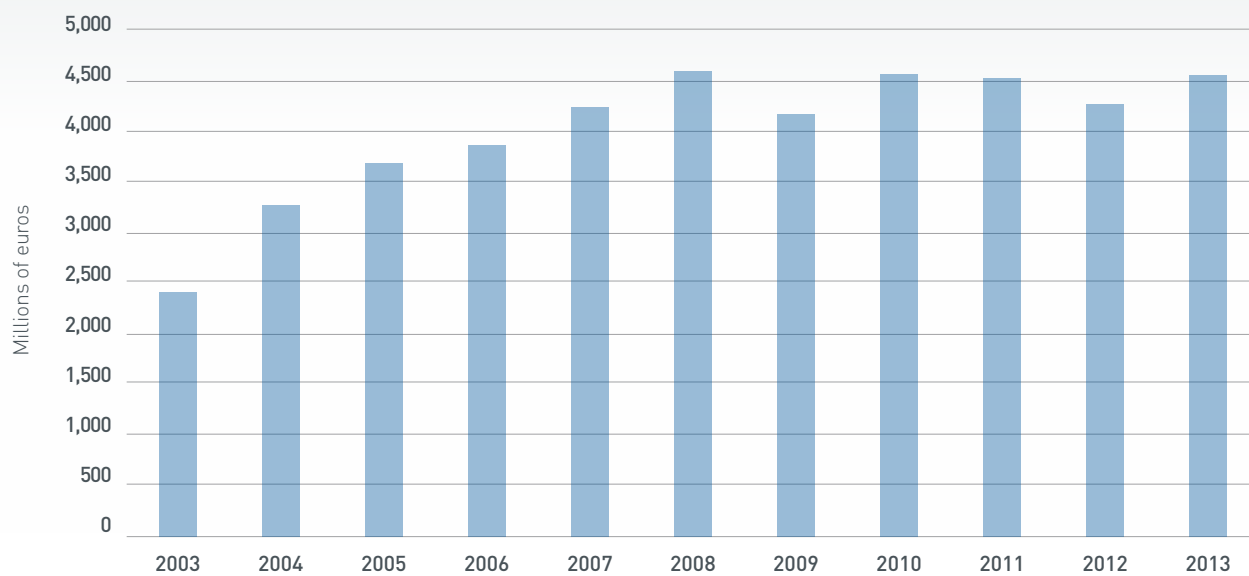
Overall volumes recorded by the Banking Group, in 2013 were €4,536 million and higher than the €4,327 million reported in 2012; total collections amounted to €5,138 million compared to €4,647 million in the previous year.

In order to counterbalance a difficult macroeconomic picture and an even more complex competitive scenario, the Group 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 receivables put forward by Banca Farmafactoring to the members of "Farindustria" and "Assobiomedica".

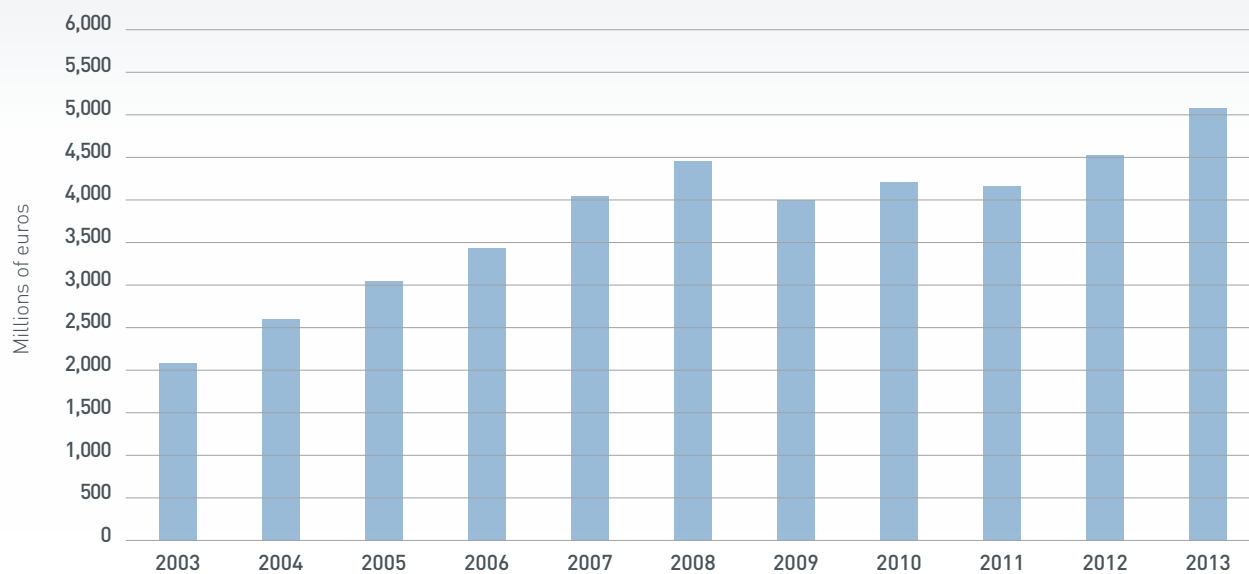
The purchase of non-recourse receivables totaled €1,773 million, which is higher than in 2012 thanks partly to the purchases from the above new clientele and an increase in the business of the subsidiary Farmafactoring España.

The following graphs represent total volumes and collections of the Group. The data up to and including 2010 refer to Farmafactoring since Farmafactoring España only made its first purchases of non-recourse receivables in 2011.

Total Banking Group Volumes

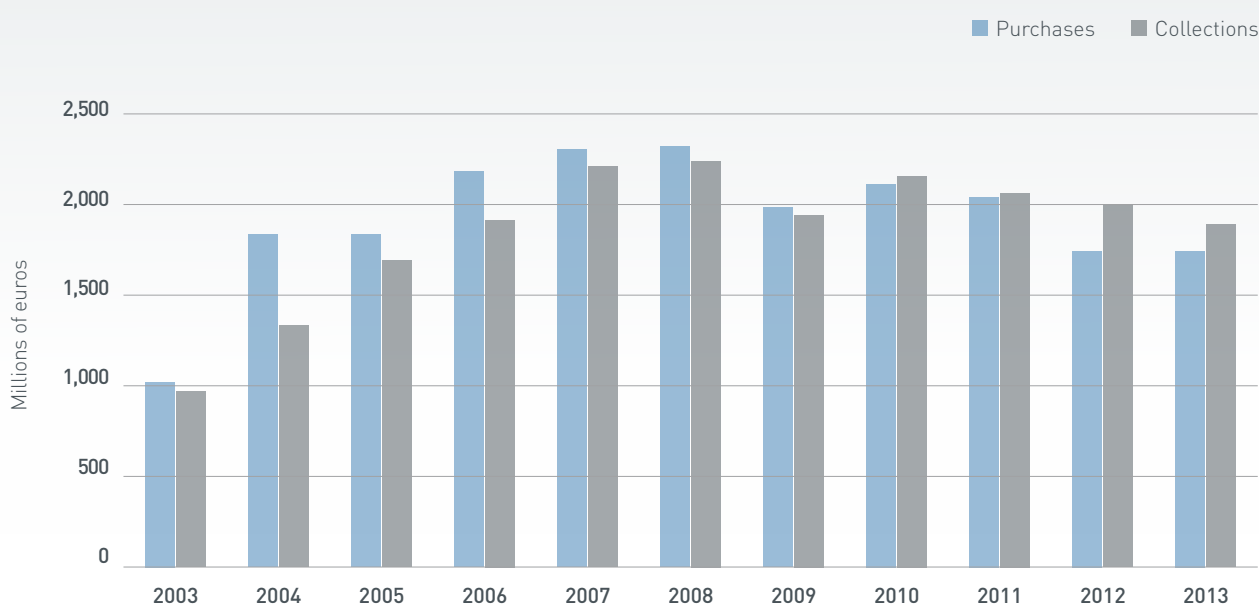


Total Banking Group Collections



Collections on non-recourse receivables amounted to €1,871 million and none of the collections came from regional agreements.

Non-recourse receivables - Banking Group Purchases and Collections

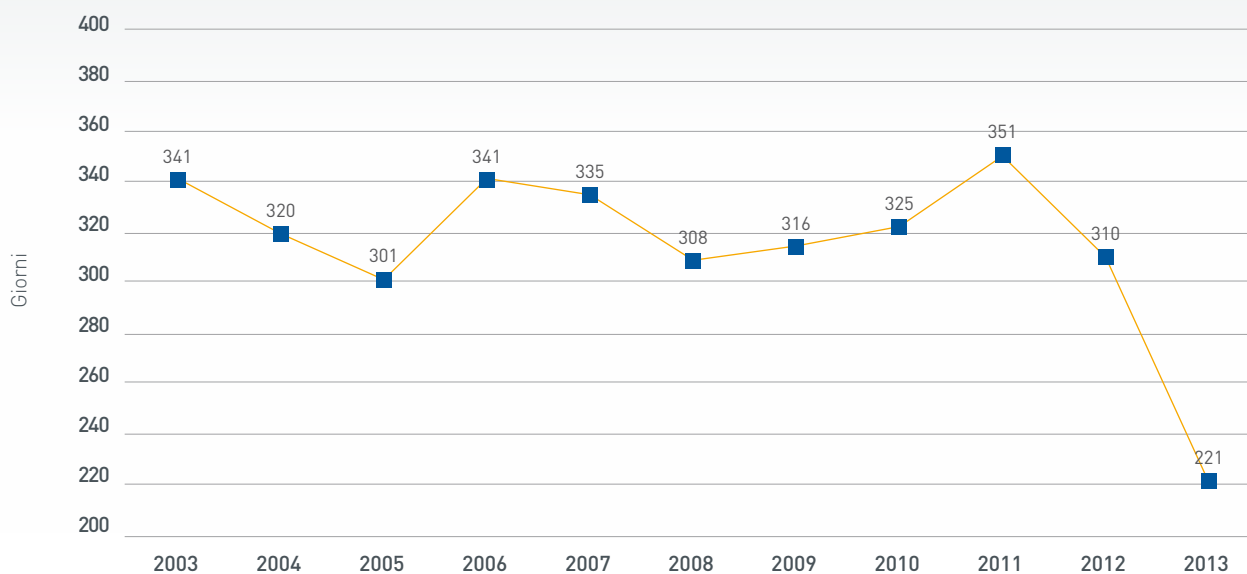


In 2013 the average number of days' delay in payment, in reference to the receivables purchased in Italy by Banca Farmafactoring, was 221 compared to 310 days in 2012.

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 are the favorable outcome of legal actions, resolutions by the Commissioner *ad acta* (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 - Italy



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

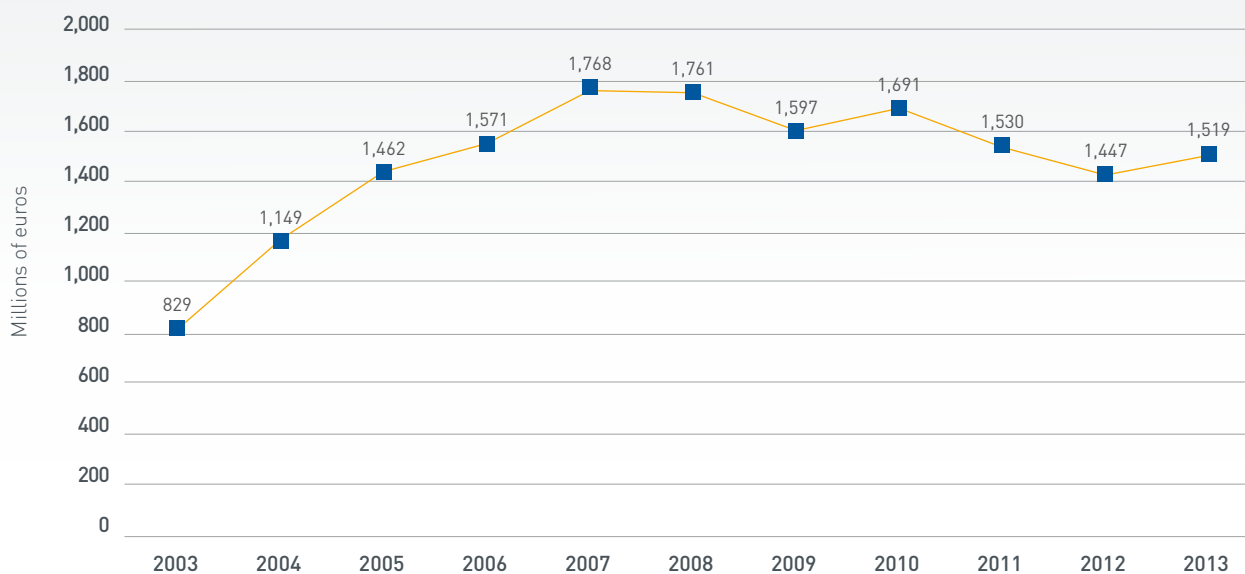
The effects of the liquidity crisis which hit the financial markets in 2009 extended well into 2013, partly on account of the downgrade in the rating of the Republic of Italy by the major rating agencies.

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.

In Spain, too, the negative economic situation has caused a tightening of credit available to business. Despite this scenario, Farmafactoring España has for the first time obtained a loan from the banking system for an amount of €6.5 million.

Regardless of the still adverse economic context the Group has in any case managed to operate satisfactorily, overcoming the difficulties dictated by the contraction of liquidity in the credit system. The aggregate credit lines extended to the Group as of the end of December 2013, in fact, amounted to €1,519 million compared to €1,447 million in 2012.

Banking Group - 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);
- obtaining a line of credit by Farmafactoring España guaranteed by the sale of non-recourse receivables for €6.5 million, secured from the Spanish banking system.

Internal Control

During the last part of 2013, a complete review of the system of internal control was begun 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 Banca Farmafactoring 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.

With regard to the risk of money laundering, the subsidiary Farmafactoring España has:

- adopted the “*Manual de blanqueo de capitales*” as a control factor in the organization aimed at the prevention of phenomena linked to crimes of money laundering and financing of terrorism;
- formed an internal control body directed to the monitoring of compliance with the regulations designed to prevent laundering of money and financing of terrorism, whose nature/functions/composition and powers are regulated by the *Manual de blanqueo de capitales*;
- appointed the director general of the company as representative of Farmafactoring España in the Executive Service of the Commission for Monitoring Exchange Control Offenses (*Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e Infracciones Monetarias – SEPBLAC*).

Third level controls

Consistently with the regulatory provisions dictated by the supervisory authority, Banca Farmafactoring, as the parent, in order to ascertain the effectiveness of the Group's system of internal control, periodically carries out checks of the Banking Group as a whole and proposes recommendations to be adopted to address the weaknesses noted in the system.

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

In conformity with Bank of Italy regulations on the subject of internal controls, and in relation to internal regulations, as the organizational means of monitoring company processes, the Internal Audit organizational unit of the Bank has performed, for the year 2013, the testing activities established in the three-year 2013-2015 Audit Plan, carrying out follow-up activities.

During 2013, architectural and applications technical tests were conducted on business continuity and disaster recovery of the operating systems of the Bank. The tests were conducted with the presence of the Internal Audit organizational unit.

The Internal Audit unit of the parent also performs tests on the most important processes of the subsidiary; during 2013 all the testing activities established in the Farmafactoring España Audit Plan were carried out.

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.

In order to comply with legislation on the subject of Legislative Decree 231/2001, the subsidiary Farmafactoring España has adopted its own Code of Ethics.

The activities performed in 2013 by the Supervisory Body of the Bank were principally directed toward testing the adequacy 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 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 the development plans of the Group and best meet the critical situation of the period, headcount was steadily increased over the years, as can be seen in the table below.

Category	2008	2009	2010	2011	2012	2013
Executives	4	6	6	6	8	8
Supervisors	16	22	24	31	33	36
Remaining staff	55	54	57	61	68	69
Total	75	82	87	98	109	113

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	8,814	11,802	13,227

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 by Banca Farmafactoring and by the subsidiary Farmafactoring España, 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, 2014, 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.

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. 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.

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

Business Outlook

According to the approved planning guidelines, the Banking 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 consolidated financial statements consist of:

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

Reclassified Consolidated 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	325,944	140,981	184,963
Receivables and loans	1,136,578	1,242,214	(105,636)
Property, plant and equipment	12,829	13,418	(589)
Intangible assets	1,122	1,298	(176)
Tax assets	40,083	22,945	17,138
Other assets	9,336	6,559	2,777
Total Assets	1,607,913	1,427,442	180,471
Liabilities and Equity			
Due to banks	804,451	737,000	67,451
Due to customers	173,438	129,974	43,464
Securities issued	320,000	250,000	70,000
Financial liabilities held for trading	548	2,244	(1,696)
Tax liabilities	47,016	40,612	6,404
Other liabilities	25,370	26,382	(1,012)
Employee severance indemnities	705	696	9
Provisions for risks and charges	3,377	3,283	94
Equity	184,096	181,064	3,032
Profit for the year	48,913	56,187	(7,274)
Total Liabilities and Equity	1,607,913	1,427,442	180,471

Reclassified Consolidated Income Statement

in € thousands

Item	12.31.2013	12.31.2012	Change
Interest income	154,643	152,167	2,476
Interest expenses	(53,644)	(49,642)	(4,002)
Net interest margin	100,999	102,524	(1,526)
Net fee and commission income	9,164	9,194	(30)
Gains/losses on trading	1,701	(1,721)	3,422
Operating income	111,864	109,998	1,866
Impairment losses/reversals on financial assets	(1,136)	462	(1,598)
Administrative expenses	(30,278)	(27,521)	(2,756)
Net adjustments to/ writebacks on property, plant and equipment and intangible assets	(1,789)	(1,773)	(17)
Net provisions for risks and charges	(734)	(435)	(299)
Other operating income (expenses)	6,609	4,672	1,937
Profit before income taxes from continuing operations	84,537	85,403	(866)
Income taxes - ordinary rate	(28,514)	(29,216)	702
Profit for the year before additional IRES tax	56,023	56,187	(164)
Income taxes - additional IRES taxes 2013	(7,110)		(7,110)
Profit for the year	48,913	56,187	(7,274)

Comments on the Reclassified Consolidated Balance Sheet

The key line items in the consolidated 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 by Banca Farmafactoring 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 year, 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	325,944	140,981	184,963
Receivables and loans	1,136,578	1,242,214	(105,636)
Total	1,462,522	1,383,196	79,326

“Due from banks” consist mainly of the Group’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	1,125,045	1,232,770	(107,725)
Receivables purchased below face amount	2,447	2,901	(455)
Receivables due from subsidiary/parent	1,700	0	1,700
Other receivables due from customers	5,142	4,116	1,026
Receivables due from financial institutions	0	1,226	(1,226)
Total	1,136,578	1,242,214	(105,636)

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. Non-recourse receivables purchased include €46.1 million relating to Farmafactoring España compared to €6.3 million in the prior year.

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" refer to a loan due from FF Holding S.p.A. for €1.7 million.

Credit quality

During 2013 the credit quality improved as follows: net non-performing loans of the Group 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 0.21% in 2013.

An analysis of the receivables portfolio was carried out in order to identify any impairment of financial assets.

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

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

Although the receivables are due almost entirely from the Public Administration, as in previous years, at the date of the interim and year-end financial statements, Banca Farmafactoring, 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 Republic of Italy and the consequent downgrade of the regions in the fourth quarter of 2011, to a higher PD calculation compared with the past and, consequently, to a collective impairment loss that is no longer negligible. In particular, at December 31, 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

Type	12.31.2013			12.31.2012		
	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

Type	12.31.2013			12.31.2012		
	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	1,121,098	(1,973)	1,119,125	1,214,413	(1,717)	1,212,696
Total	1,132,099	(4,607)	1,127,492	1,239,686	(4,014)	1,235,671

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	59.50%
Land	3,685	0	0	3,685	28.72%
Systems	434	149	(169)	414	3.23%
Furniture and fixtures	334	27	(84)	277	2.16%
Electronic machines	614	336	(434)	515	4.02%
Other property and equipment	463	9	(167)	305	2.38%
Total	13,418	628	(1,217)	12,829	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	40,083	22,945	17,138
<i>current</i>	37,879	20,104	17,775
<i>deferred</i>	2,204	2,841	(637)
Tax liabilities	47,016	40,612	6,404
<i>current</i>	35,797	29,275	6,522
<i>deferred</i>	11,219	11,337	(118)

The increase in current tax assets arises mainly from the provisions of Legislative Decree 133 of November 30, 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	173,438	129,974	43,464
<i>Of which financial institutions</i>	72,379	61,034	11,345
Total	977,889	866,974	110,915

“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.

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 €3,377 thousand and mainly include provisions referring to personnel.

Provisions comprise €2,672 thousand for “Pension funds and similar obligations”.

in € thousands

Item	12.31.2012	Increase	Decrease	12.31.2013
Long-term employee benefits	2,680	651	(660)	2,672
Total	2,680	651	(660)	2,672

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

Comments on the Reclassified Consolidated Income Statement

The consolidated income statement for the year ended December 31, 2013 shows an after-tax profit of €84,537 thousand compared to €85,403 thousand in 2012.

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

Operating income

in € thousands

Item	2013	2012	Change	Change %
Maturity commissions	97,896	97,806	90	0.09%
Interest on late payments	51,188	50,832	356	0.70%
Interest on securities	1,548	0	1,548	-
Other interest	4,011	3,529	483	13.68%
Total interest income	154,643	152,167	2,476	1.63%
Interest expenses	(53,644)	(49,642)	(4,002)	8.06%
Net fee and commission income	9,164	9,194	505	(0.32%)
Gains/losses on trading	1,701	(1,721)	3,422	(198.84%)
Operating income	111,864	109,997	1,867	1.70%

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

Maturity commissions referring to 2013 total €97.9 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 €386 million, of which €3 million refers to the subsidiary, and has been fully written off by a charge of the same amount to the provision for interest on late payments.

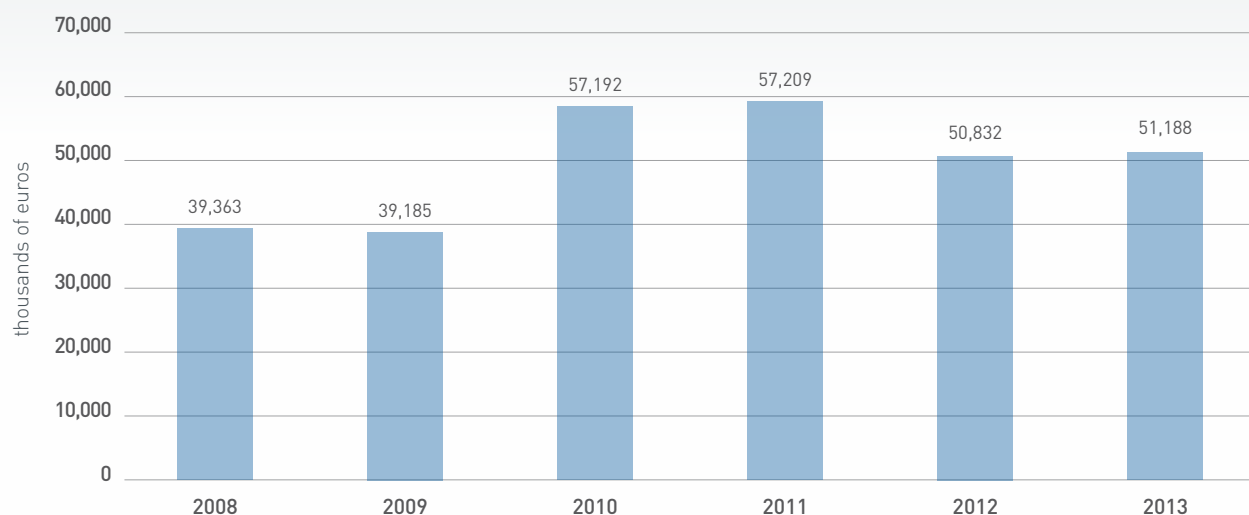
Banking Group - Provision for interest on late payments



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

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

Banking Group - Collections of interest on late payments



“Interest on securities” refers to government securities purchased by the Bank during 2013 and classified in the available-for-sale portfolio. The amortized cost method is used for the measurement of these securities and the interest is recorded in the income statement using the effective interest method.

“Interest expenses” rose by approximately €4 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	12.31.2013	12.31.2012	Change	Change %
Fee and commission income	10,272	10,112	160	1.59%
Fee and commission expenses	(1,108)	(917)	(191)	20.80%
Net fee and commission income	9,164	9,194	(30)	(0.33%)

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

Performance review

The performance review of the last few years shows a 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	12.31.2013	12.31.2012	12.31.2011
Net interest income	101.0	102.5	69.1
Operating income	111.9	110.0	80.2
EBTDA	88.2	87.1	60.0
Profit for the year	48.9	56.2	39.0
R.O.E. (Return On Equity) (%)	26.6%	31.0%	24.2%
Operating income / Non-recourse volumes (%)	6.3%	6.4%	3.9%
Interest expenses / Maturity commissions (%)	53.1%	53.4%	85.8%
Net interest income / Interest income (%)	65.3%	67.4%	55.2%
Non-performing (net of impairment losses) / Outstanding (%)	0.21%	0.96%	0.78%
Regulatory capital / Weighted outstanding (%) (1)	34.0%	14.7%	22.9%
Financial leverage	8.7	7.9	10.4
Equity	233.0	237.3	200.6
Regulatory Capital	185.3	182.4	179.9

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

The increase in Regulatory Capital compared to prior years is due to undistributed earnings.

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 Group 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 Group 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 to commence banking activities will allow greater access to various sources of funding.

In an economic and financial context that is still challenging, the Group has further strengthened its position in the country by building up commercial relations and diversifying banking relations in order to reduce as much as possible the risk of the concentration of relationships and minimizing the timing process 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 Group 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*”.

The new regulation harmonized for banks and investment companies, contained in the CRR community regulation (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013 is applicable from January 1, 2014 on the basis of 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.

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 discretionarities 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.

Pillar 1 – Capital requirements to meet typical risks associated with financial activities

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

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

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 Banking Group.

The purpose of the prudential supervision regulation is to assure the Regulatory Authority that the banks have a minimum obligatory capital in relation to the risks assumed.

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

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

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.

The Banking Group'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 21.0% for the Tier 1 Capital Ratio and 21.5% for the Total Capital Ratio.

in € millions, unless otherwise indicated

Details	Total 12.31.2013	Total 12.31.2012
Tier 1 capital	181.3	178.6
Tier 2 capital	4.0	3.8
Regulatory Capital	185.3	182.4
Risk-weighted assets	861.7	1.498.8
<i>Tier 1 Capital Ratio (%)</i>	<i>21.0%</i>	<i>11.9%</i>
<i>Total Capital Ratio (%)</i>	<i>21.5%</i>	<i>12.2%</i>

The increase in regulatory capital compared to the prior year is due principally to the undistributed earnings of Banca Farmafactoring.

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.

Even if the exposures from the Public Administration are weighted at 100%, the banking regulatory ratios would be 13.1% for the Tier 1 Capital Ratio and 13.4% 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%).

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

Pillar III – Disclosure to the public

By the date set for the publication of the annual 2013 financial statements, and at least once a year, the Banking Group 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 by the Bank in greater detail in the Notes, Part E) Information on Risks and related Risk Management Policies.

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

in € thousands

	Equity 12.31.2013	Profit 2013	Equity 12.31.2012	Profit 2012
Banca Farmafactoring S.p.A.	234,605	48,890	238,869	56,449
Differences compared to the carrying amounts of the consolidated companies				
- <i>Farmafactoring España S.A.</i>	(1,402)	22	(1,424)	(263)
Other adjustments	(194)		(194)	
Consolidated figures of the Group	233,009	48,913	237,251	56,187

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.

Appropriation of the Profit of the Banking Group

The profit of the Group of €48,912,826 is composed of the sum of the profit of Banca Farmafactoring for €48,890,449 and the profit of Farmafactoring España for €22,337.

The ordinary shareholders' meeting of Farmafactoring España held on March 20, 2014 approved the financial statements at December 31, 2013 and resolved to appropriate the profit to partially cover prior years' losses.

The following motion for the appropriation of the profit of Banca Farmafactoring will be put forward to the shareholders' meeting of the Bank on April 29, in first call, or on May 6, in second call.

Motion for the Appropriation of Profit of Banca Farmafactoring

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.

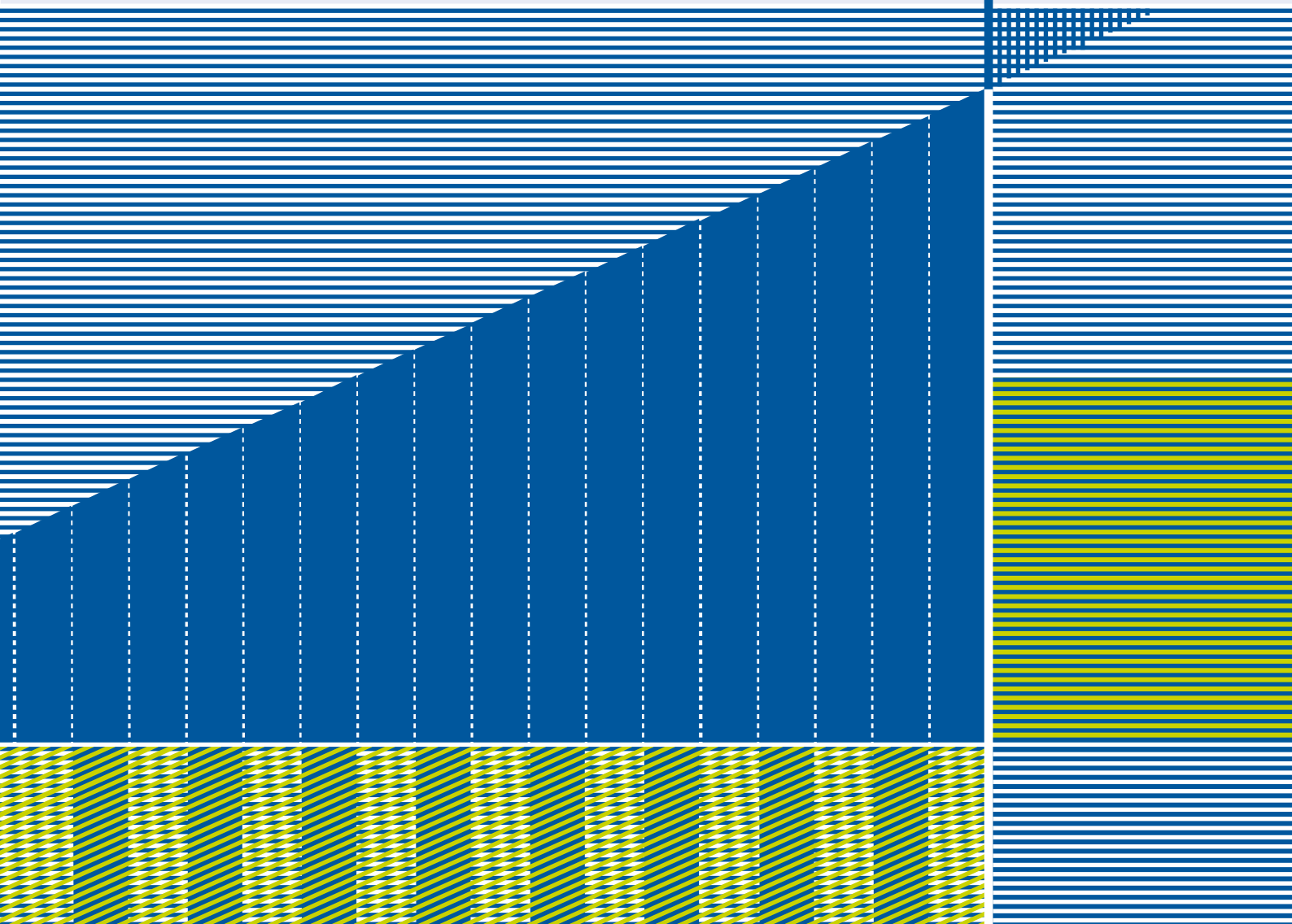
The Chairman
of the Board of Directors
Salvatore Messina



GRUPPO BANCARIO

BANCA
FARMAFACTORING

02 CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2013



Consolidated Balance Sheet

Consolidated Assets	12.31.2013	12.31.2012
10. Cash and cash balances	1,164	2,418
20. Financial assets held for trading	4,877	0
40. Available-for-sale financial assets	82,015,308	23,492
60. Due from banks	325,944,213	140,981,429
70. Receivables and loans	1,136,577,971	1,242,214,404
120. Property, plant and equipment	12,829,189	13,418,250
130. Intangible assets of which - <i>goodwill</i>	1,121,966	1,297,819
140. Tax assets	40,082,589	22,945,136
<i>a) current</i>	37,878,941	20,104,449
<i>b) deferred</i>	2,203,648	2,840,687
<i>of which convertible into tax credit Law 214/2011</i>	508,690	547,820
160. Other assets	9,335,903	6,559,031
TOTAL CONSOLIDATED ASSETS	1,607,913,180	1,427,441,978

in euros

Consolidated Liabilities and Equity	12.31.2013	12.31.2012
10. Due to banks	804,451,120	737,000,000
20. Due to customers	173,437,510	129,973,626
30. Securities issued	320,000,000	250,000,000
40. Financial liabilities held for trading	547,608	2,243,875
80. Tax liabilities	47,015,667	40,611,985
<i>a) current</i>	35,796,523	29,274,684
<i>b) deferred</i>	11,219,144	11,337,301
100. Other liabilities	25,370,107	26,382,409
110. Employee severance indemnities	704,718	696,022
120. Provisions for risks and charges	3,377,133	3,283,160
<i>a) pension funds and similar obligations</i>	2,672,390	2,680,901
<i>b) other provisions</i>	704,743	602,259
140. Valuation reserves	4,218,569	3,822,976
170. Reserves	48,977,922	46,341,221
190. Share capital	130,900,000	130,900,000
220. Profit for the year	48,912,826	56,186,704
TOTAL CONSOLIDATED LIABILITIES AND EQUITY	1,607,913,180	1,427,441,978

Consolidated Income Statement

in euros

Items	2013	2012
10. Interest and similar income	154,642,788	152,166,562
20. Interest and similar expenses	(53,644,270)	(49,642,250)
30. NET INTEREST MARGIN	100,998,518	102,524,312
40. Fee and commission income	10,272,469	10,111,603
50. Fee and commission expenses	(1,108,089)	(917,315)
60. NET FEE AND COMMISSION INCOME	9,164,380	9,194,288
80. Gains / losses on trading	1,701,144	(1,720,981)
120. OPERATING INCOME	111,864,042	109,997,619
130. Impairment losses/reversals on: a) receivables b) available-for sale financial assets c) financial assets held-to-maturity d) other financial transactions	(1,136,173)	462,091
140. NET PROFIT FROM BANKING ACTIVITIES	110,727,869	110,459,710
170. NET PROFIT FROM BANKING AND INSURANCE ACTIVITIES	110,727,869	110,459,710
180. Administrative expenses: a) personnel costs b) other administrative expenses	(13,227,085) (17,050,549)	(11,802,039) (15,719,407)
190. Net provisions for risks and charges	(733,574)	(434,727)
200. Net adjustments to/writebacks on property, plant and equipment	(1,217,256)	(1,306,317)
210. Net adjustments to/writebacks on intangible assets	(571,938)	(466,344)
220. Other operating income/expenses	6,609,129	4,671,974
230. OPERATING EXPENSES	(26,191,273)	(25,056,860)
280. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	84,536,596	85,402,850
290. Income taxes on profit from continuing operations	(35,623,770)	(29,216,146)
300. PROFIT AFTER TAX FROM CONTINUING OPERATIONS	48,912,826	56,186,704
320. PROFIT FOR THE YEAR	48,912,826	56,186,704
340. PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT	48,912,826	56,186,704

Consolidated Statement of Comprehensive Income

in euros

Items	2013	2012
10. Profit for the year	48,912,826	56,186,704
Other comprehensive income that will not be reclassified subsequently to the income statement, net of tax		
20. Property, plant and equipment 30. Intangible assets 40. Defined benefit plans 50. Non-currents assets classified as held for sale 60. Portion of valuation reserves from investments accounted for using the equity method	(764)	
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 110. Non-currents assets classified as held for sale 120. Portion of valuation reserves from investments accounted for using the equity method	396,357	
130. Total Other comprehensive income, net of tax	395,593	
140. Comprehensive income (items 10+130)	49,308,419	56,186,704
150. Attributable to non-controlling interests		
160. Attributable to owners of the parent	49,308,419	56,186,704

Consolidated Statement of Changes in Consolidated Equity

For the year ended December 31, 2013

	Opening balance 12.31.2012	Adjustments to opening balance	Opening balance 01.01.2013	Appropriation of prior year profit		Change in equity during the year								Equity attributable to the owners of the parent 12.31.2013	Equity attributable to non-controlling interests 12.31.2013
				Reserves	Dividends and other appropriations	Change in reserves	Equity transactions						Comprehensive income year 2013		
							New shares issue	Purchase of treasury shares	Payment of extr. dividends	Change in equity instruments	Derivatives on treasury shares	Stock options			
Share capital:															
- ordinary shares	130,900,000		130,900,000												130,900,000
- other shares															
Share premium															
Reserves:															
- income reserves	47,696,497		47,696,497	2,899,281											50,595,778
- other reserves	(1,355,276)		(1,355,276)	(262,577)											(1,617,853)
Valuation reserves	3,822,976		3,822,976		395,594										4,218,570
Equity instruments															
Treasury shares															
Profit for the year	56,186,704		56,186,704	(2,636,704)	(53,550,000)								48,912,826		48,912,826
Profit attributable to owners of the parent	237,250,901		237,250,901		(53,500,000)	395,594							48,912,826		233,009,321
Profit attributable to non-controlling interests															

in euros

For the year ended December 31, 2012

	Opening balance 12.31.2012	Adjustments to opening balance	Opening balance 01.01.2013	Appropriation of prior year profit		Change in equity during the year								Equity attributable to the owners of the parent 12.31.2013	Equity attributable to non-controlling interests 12.31.2013	
				Reserves	Dividends and other appropriations	Change in reserves	Equity transactions									Comprehensive income year 2013
							New shares issue	Purchase of treasury shares	Payment of extr. dividends	Change in equity instruments	Derivatives on treasury shares	Stock options	Changes in ownership inter.			
Share capital:																
- ordinary shares	130,900,000		130,900,000													130,900,000
- other shares																
Share premium																
Reserves:																
- income reserves	27,046,029		27,046,029	20,650,468												47,696,497
- other reserves	(213,012)		(213,012)	(1,142,264)												(1,355,276)
Valuation reserves	3,822,976		3,822,976													3,822,976
Equity instruments																
Treasury shares																
Profit for the year	39,058,204		39,058,204	(19,508,204)	(19,550,000)								56,186,704			56,186,704
Profit attributable to owners of the parent	200,614,197		200,614,197		(19,550,000)								56,186,704			237,250,901
Profit attributable to non-controlling interests																

Consolidated Statement of Cash Flows Indirect Method

in euros

	12.31.2013	12.31.2012
A. OPERATING ACTIVITIES		
1. Operating activities	51,917,821	57,927,279
- profit for the year (+/-)	48,912,826	56,186,704
- 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 (+/-)	1,774,849	1,771,058
- net provisions and other expenses/revenues (+/-)	93,973	431,608
- 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	181,971,740	(256,321,803)
- 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	184,962,784	55,672,812
- due from financial institutions		
- receivables and loans	(104,506,741)	(303,137,069)
- other assets	19,914,325	(8,534,661)
3. Cash flows from/used by financial liabilities	184,609,761	(293,575,818)
- due to banks: on demand	67,451,120	(380,385,426)
- due to financial institutions: other amounts due		
- due to customers	43,463,884	20,112,356
- securities issued	70,000,000	50,000,000
- financial liabilities held for trading	(1,696,267)	1,398,097
- financial liabilities at fair value through profit or loss		
- other liabilities	5,391,024	15,299,155
Net cash flows from/used in operating activities	54,556,114	20,673,264
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	(1,007,368)	(1,123,081)
- purchases of investments	0	0
- purchases of financial assets held-to-maturity		
- purchases of property, plant and equipment	(611,253)	(492,695)
- purchases of intangible assets	(396,115)	(630,386)
- purchases of business segments		
Net cash flows from/used in investing activities	(1,007,368)	(1,123,081)
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	(1,254)	183

Reconciliation

in euros

	12.31.2013	12.31.2012
Cash and cash equivalents at beginning of the year	2,418	2,235
Change in cash and cash equivalents from/used during the year	(1,254)	183
Cash and cash equivalents: effect of exchange rate differences		
Cash and cash equivalents at end of the year	1,164	2,418

Notes to the Consolidated Financial Statements

The notes are arranged as follows:

- 1) Part A – Accounting Policies;
- 2) Part B – Consolidated Balance Sheet;
- 3) Part C – Consolidated Income Statement;
- 4) Part D – Consolidated Comprehensive Income;
- 5) Part E – Information on Risks and related Risk Management Policies;
- 6) Part F – Consolidated Equity;
- 7) Part H – Related Party Transactions;
- 8) Part L – Segment reporting.

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 consolidated 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.

In view of Farmafactoring’s transformation into a bank and the formation of the Banking Group in 2013, the comparative figures for 2012 have been determined by consolidating the already-existing companies at December 31, 2012, according to the formats established in the same Circular 262.

The consolidated financial statements include the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated state-

ment of changes in equity and the consolidated statement of cash flows, the notes to the consolidated 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/IFRS were taken into account in these financial statements, if applicable. A summary is presented as follows:

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

- **IAS 19:** no longer allows the deferral of actuarial gains and losses under the corridor method, now requiring their immediate recognition in comprehensive income for the year. 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 – Principles and scope of consolidation

The consolidated financial statements of the Banking Group reflect the aggregation of the individual amounts in the balance sheets and income statements of the parent Banca Farmafactoring S.p.A., the wholly-owned subsidiary Farmafactoring España S.A. and the three special purpose entities FF Finance S.r.l, Farmafactoring SPV I S.r.l. and Farmafactoring SPV II S.r.l.

The three special purpose entities were set up for the securitization transactions structured with Banca IMI, with Deutsche Bank and with BayernLB and were included in the scope of consolidation because they meet the criteria set out in Interpretation SIC 12. SIC 12 establishes the obligation of consolidating a special purpose entity when, in the absence of an investment relationship, the company that prepares the financial statements, in substance, controls the special purpose entity.

The following chart shows that the companies are consolidated using the line-by-line method. All balances and transactions between the companies in the Banking Group are eliminated on consolidation.

1. Investments in subsidiaries (line-by-line) and joint ventures

Name	Headquarters	Type of relations.	Investment relationship		
			Held by	Holding %	Voting Rights %
A. Company					
A.1 Line-by-line					
2. Farmafactoring España S.A.	Madrid C/ Luchana 23	1	Banca Farmafactoring	100%	100.00%
3. FF Finance S.r.l.	Turin - Corso Re Umberto 8	4	Banca Farmafactoring	0%	0%
4. Farmafactoring SPV I S.r.l.	Milan Via Statuto 10	4	Banca Farmafactoring	0%	0%
5. Farmafactoring SPV II S.r.l.	Milan Via G. Fara 26	4	Banca Farmafactoring	0%	0%
A.2 Companies consolidated proportionally					

Section 4 - 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 II, 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”, (option allowed by Bollettino di Vigilanza no. 12 of December 2013, in the paragraph relating to “Regulation on Own Funds), the board of directors of Banca Farmafactoring on January 24, 2014 resolved to exercise such option.

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

Section 5 - 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.

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, all the risks and rewards relating to these financial assets have been substantially transferred.

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 in this item 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.

4. 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, Banca Farmafactoring, in ac-

cordance 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.

8. 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 Group companies.

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.

9. 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.

11. Current and deferred taxes

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.

12. 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.

13. Payables and securities issued

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.

18. Other information

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

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

IAS 19 revised no longer 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.

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 are not quoted prices in an active market and can be observed directly or indirectly.

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	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	325,944			325,944	140,981			140,981
3. Receivables and loans	1,136,578			1,136,578	1,242,214			1,242,214
4. Property, plant and equipment held for investment purposes								
5. Non-current assets and disposal groups of assets held for sale								
Total	1,462,522			1,462,522	1,383,195			1,383,195
1. Due to banks	804,451			804,451	737,000			737,000
2. Due to customers	173,438			173,438	129,973			129,973
3. Securities issued	320,000		320,000		250,000		250,000	
4. Liabilities associated with assets held for sale								
Total	1,297,889		320,000	977,889	1,116,974		250,000	866,974

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 using inputs that are observable, 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 - Consolidated 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

	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			0	
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			0	
Total (A+B)		5			0	

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 issuers:		
- 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		
- fair value	5	0
b) Customers		
- fair value		
Total B	5	0
Total (A+B)	5	0

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

€82,015 thousand

The amount mainly represents the value of three government securities purchased by Banca Farmafactoring 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 held by Banca Farmafactoring 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 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 issuers:		
- 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 entities		
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	0	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

€325,944 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				12.31.2012			
	CA	FV			CA	FV		
		L1	L2	L3		L1	L2	L3
A. Due from central banks								
1. Time deposits								
2. Mandatory reserve								
3. Reverse repos								
4. Other								
B. Due from banks								
1. Loans								
1.1 Current accounts and demand deposits	324,481		324,481		140,168		140,168	
1.2 Time deposits	1,462		1,462		676		676	
1.3 Other loans								
- reverse repos								
- finance leases								
- other	2		2		137		137	
2. Debt securities								
2.1 Structured securities								
2.2 Other								
Total	325,944		325,944		140,981		140,981	

Key:

FV = Fair Value

CA = Carrying Amount

Time deposits include €750 thousand referring to the mandatory 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

€1,136,578 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 €1,119,125 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 €180,745 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 receivables**: for €5,803 thousand;
- other loans receivable, for €9,086 thousand, include:
 - advances to assignors for €2,244 thousand;
 - loan receivable from the parent FF Holding S.p.A. for €1.7 million, regulated on an arm's length basis;
 - 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 €2,956 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 at December 31, 2013.

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	1,119,125		8,367			1,127,492	1,212,695		22,975			1,235,670
7. Other loans	9,086					9,086	6,544					6,544
Debt securities												
8. structured securities												
9. other												
Total	1,128,211		8,367			1,136,578	1,219,239		22,975			1,242,214

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			12.31.2012		
	Carrying amount			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	1,107,714		5,798	1,212,216		8,261
c) Other entities						
- non-financial companies	2,293		130	5,328		124
- financial companies	1,700			1,226		
- insurance companies						
- other	5,184		2,439	469		14,590
Total	1,128,211		8,367	1,219,239		22,975

Section 12 - Property, plant and equipment - Item 120

€12,829 thousand

12.1 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	348	421
d) Electronic systems	533	636
e) Other	629	788
2. Leased assets acquired under finance leases		
a) Land		
b) Buildings		
c) Furniture and fixtures		
d) Electronic systems		
e) Other		
Total	12,829	13,418

12.5 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	421	636	788	13,418
A.1 Total net reduction in value						
A.2 Net beginning balance	3,685	7,888	421	636	788	13,418
B. Increases						
B.1 Purchases		108	31	339	136	614
B.2 Capitalized improvements						
B.3 Writebacks						
B.4 Positive fair value changes allocated to:						
a) equity						
b) income statement						
B.5 Net exchange gains						
B.6 Transfers from properties held for investment						
B.7 Other changes						
C. Decreases						
C.1 Disposals						
C.2 Depreciation		(362)	(104)	(442)	(295)	(1,203)
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	348	533	629	12,829
D.1 Net impairment loss						
D.2 Gross ending balance	3,685	7,634	348	533	629	12,829
E. Carried at cost						

At the date of IFRS first-time adoption (January 1, 2005), the properties owned by Banca Farmafactoring and used 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 13 - Intangible assets - Item 130

€1,122 thousand

13.1 Intangible assets: breakdown

Assets/Amounts	12.31.2013		12.31.2012	
	Finite life	Indefinite life	Finite life	Indefinite life
A.1 Goodwill				
A.1.1 attributable to the Group				
A.1.2 attributable to non-controlling interests				
A.2 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.

13.2 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 - impairment losses allocated to: + equity + income statement				(572)		(572)
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						

Key:

DEF = finite

INDEF = indefinite

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

Section 14 - Tax assets and liabilities - Item 140 of assets and Item 80 of liabilities

Current tax assets amount to €37,879 thousand compared to €20,104 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, established a further increase of 1.5% in advance payments, bringing them to 130%.

Current tax liabilities amount to €35,797 thousand compared to €29,275 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%.

14.1 Deferred tax assets: breakdown

€2,204 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.

14.2 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, a lawyer has been engaged 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 and that it would be reasonable to wait and see whether its arguments produce a favorable outcome in the next phase of the dispute.

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

€2,204 thousand

	12.31.2013	12.31.2012
1. Beginning balance	2,841	3,110
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	(985)	(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		
a) conversion into tax credit under Law 214/2011		
b) other		
4. Ending balance	2,204	2,841

14.3.1 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

14.4 Deferred tax liabilities: annual changes (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

14.6 Variazione delle imposte differite (in contropartita del patrimonio netto)

Euro 232 mila

	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 16 - Other assets - Item 160

€9,336 thousand

16.1 Other assets: breakdown

Details	12.31.2013	12.31.2012
Security deposits	26	26
Other receivables	1,612	1,041
Accrued income and prepaid expenses	7,698	5,493
Total	9,336	6,559

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
<i>Fair Value - Level 1</i>		
<i>Fair Value - Level 2</i>		
<i>Fair Value - Level 3</i>	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

€173,438 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	101,059	68,940
Total	173,438	129,974
<i>Fair Value - Level 1</i>		
<i>Fair Value - Level 2</i>		
<i>Fair Value - Level 3</i>	173,438	129,974
Total Fair Value	173,438	129,974

“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 principally to collections of managed receivables due to assignors of €100.8 million.

Section 3 - Securities issued - Item 30

€320,000 thousand

3.1 Securities issued: product breakdown

	12.31.2013				12.31.2012			
	Carrying amount	Fair Value			Carrying amount	Fair Value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds								
1.1 structured								
1.2 other	320,000		320,000		250,000		250,000	
2. Other securities								
2.1 structured								
2.2 other								
Total	320,000		320,000		250,000		250,000	

The securities were issued by:

- FF Finance S.r.l., as part of the health care securitization transaction, structured with Banca IMI in June 2011;
- Farmafactoring SPV I S.r.l., as part of the health care securitization transaction, structured with Deutsche Bank in October 2012;
- Farmafactoring SPV II S.r.l., as part of the health care securitization transaction, structured with BayernLB in the first quarter of 2013.

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

Section 4 - Financial liabilities held for trading - Item 40

€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

Assets/Amounts	Total 2013				Total 2012					
	NA	Fair Value			FV*	NA	Fair Value			FV*
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
1. Due to banks										
2. Due to customers										
3. Debt securities										
3.1 Bonds										
3.1.1 Structured										
3.1.2 Other 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		548	278,000	2,244			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		548	278,000	2,244			2,244
Total (A+B)	133,000		548		548	278,000	2,244			2,244

Key:

FV = fair value

FV* = fair value calculated excluding the changes in value due to the change in the credit class of the issuer as compared with the date of issue

NA = nominal or notional amount

L1 = Level 1, L2 = Level 2, L3 = Level 3

At December 31, 2013, the value of the liabilities connected to the fair value of 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 14 under assets in the balance sheet

Section 10 - Other liabilities - Item 100

€25,370 thousand

10.1 Other liabilities: breakdown

Details	12.31.2013	12.31.2012
Payables to suppliers	1,382	1,118
Invoices to be received	5,269	5,612
Payables to the tax authorities	752	479
Payables to social security agencies	345	315
Payables to employees	2,433	2,234
Payables for receivables management	596	1,899
Collections pending allocation	3,567	5,633
Other payables	4,954	2,966
Accrued liabilities and deferred income	6,071	6,125
Total	25,370	26,382

“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 thousand

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

€3,377 thousand

12.1 Provisions for risks and charges: breakdown

Items/Amounts	12.31.2013	12.31.2012
1. Pension funds and similar obligations	2,672	2,681
2. Other provisions		
2.1 Legal disputes		
2.2 Personnel expenses		
2.3 Other	705	602
Total	3,377	3,283

12.2 Provisions for risks and charges: annual changes

Items/Amounts	Total	
	Pension funds	Other provisions
A. Beginning balance	2,681	602
B. Increases		
B.1 Provision for the year	631	103
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)	
C.2 Variation due to change in the discount rate		
C.3 Other changes		
D. Ending balance	2,672	705

12.3 Defined benefit pension funds

The provision refers to:

- for €112 thousand, to the non-competition agreement signed by the executives of the Group companies;
- 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, 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.

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

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

The use of the provision refers, instead, to the payment of the Long-Term Incentive plan, the variable compensation plan in effect up to 2012.

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

€233,009 thousand

15.1 "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.

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

Items/Types	Ordinary	Other
A. Shares at beginning of the year		
- fully paid	1,700,000	
- not fully paid		
A.1 Treasury shares (-)		
A.2 Shares outstanding: Beginning balance	1,700,000	
B. Increases		
B.1 New issues		
- 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		

15.4 Income reserves: other information

In accordance with art. 2427, paragraph 7-bis of the Italian Civil Code, a summary is presented below of the individual items of equity according to the possibility of utilization, the amount available for distribution and their utilization in the three years previous to the date of the preparation of 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	48,978				
- Legal reserve	19,044	B			
- Extraordinary reserve	88	A,B,C	88		
- Retained earnings	29,846	A,B,C	29,846		(*) 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	184,097		34,153		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		2,899
B.2 Other changes				
C. Decreases				
C.1 Use for the year				
- absorption of losses				
- distribution				
- transfer to share capital				
C.2 Other changes		(1,617)		(1,617)
D. Ending balance	19,044	29,846	88	48,978

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 di Banca Farmafactoring 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 di Banca Farmafactoring 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 principally 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		
a) Banks		
b) Customers		
3) Irrevocable commitments to disburse funds		
a) Banks		
i) usage certain		
ii) usage uncertain		
b) Customers		
i) usage certain		
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	22	

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

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 - Consolidated Income Statement

All amounts are expressed in thousands of euros.

Section 1 – Interest – Items 10 and 20

1.1 Interest and similar income: breakdown

€154,643 thousand

Items/Type	Debt securities	Loans	Other transactions	2013	2012
1. Financial assets held for trading					
2. Financial assets at fair value through profit or loss					
3. Available-for-sale financial assets	1,548			1,548	
4. Financial assets held-to-maturity					
5. Due from banks		982	578	1,560	1,591
6. Receivables and loans		100,331	51,202	151,533	150,575
7. Hedging derivatives					
8. Other assets			2	2	
Total	1,548	101,313	51,782	154,643	152,167

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 Banca Farmafactoring 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 €100,331 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 €50,976 thousand of interest on late payments collected during the year.

1.4 Interest and similar expenses: breakdown

€53,644 thousand

Items/Type	Loans	Securities	Other	2013	2012
1. Due to central banks					
2. Due to banks	33,329		74	33,403	34,117
3. Due to customers	1,849		16,783	18,632	12,439
4. Securities issued					
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					
8. Hedging derivatives					
Total	35,178		18,466	53,644	49,642

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 Fee and commission income: breakdown

€10,272 thousand

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		
e) securitization servicing		
f) factoring	10,251	10,106
g) tax collection services		
h) management of multilateral trading facilities		
i) management of current accounts		
j) other services	21	6
Total	10,272	10,112

2.2 Fee and commission expenses: breakdown

€1,108 thousand

Details/Sectors	2013	2012
a) guarantees received	10	8
b) credit derivatives		
c) management and brokerage services:		
1. financial instruments trading		
2. currency trading		
3. portfolio management:		
3.1 own portfolio		
3.2 third-party portfolio		
4. custody and administration of securities		
5. placement of financial instruments		
6. off-site distribution of financial instruments, products and services		
d) collection and payment services		
e) other services	1,098	909
Total	1,108	917

Section 4 - Gains/losses on trading- Item 80

4.1 Gains/losses on trading: product breakdown

€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					
4. Derivatives					
4.1 Financial derivatives:					
- on debt securities and interest rates		1,701			1,701
- on equity instruments and stock indexes					
- on currency and gold					
- 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	0	
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:									
Impaired receivables purchased									
- loans									
- debt securities									
Other receivables									
- loans	(186)	(775)	(217)		43		(1,136)	462	
- debt securities									
C. Total	(186)	(775)	(217)		43		(1,136)	462	

Key:

A = from interest

B = other reversals

Section 11 - Administrative expenses - Item 180

€30,278 thousand

11.1 Personnel costs: breakdown

€13,227 thousand

Types of expenses/Sectors	2013	2012
1. Employees		
a) wages and salaries	7,857	7,371
b) social security charges	2,231	2,204
c) employee severance indemnity charges		
d) pension charges		
e) provision for employee severance indemnity	253	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	769	559
2. Other employees in service	33	119
3. Directors and statutory auditors	2,013	1,239
4. Early retirement costs		
Total	13,227	11,802

11.2 Average number of employees by category

Employees

number

Category	Average number 2013	Average number 2012
Executives	8	8
Supervisors	35	32
Remaining staff	67	66
Total	110	106

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

Other staff

Traineeships: 2

11.4 Other benefits to employees

The amount of €769 thousand refers principally to expenses incurred for training, insurance for employees and meal tickets.

11.5 Other administrative expenses: breakdown

€17,051 thousand

Details	2013	2012
Legal fees	4,101	3,949
Data processing costs	1,096	910
External receivables management services	973	922
Compensation to Supervisory Body	83	83
Legal fees for receivables under management	928	1,031
Notary fees	390	330
Notary fees to be recovered	100	157
Corporate hospitality and donations	827	786
Maintenance expenses	875	1,016
Non-deductible VAT	1,570	1,575
Other indirect taxes and duties	186	158
Consulting fees	2,677	2,268
Office operating expenses	687	666
Other expenses	2,557	1,868
Total	17,051	15,719

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	137
Internal audit fees (external firm)	66
Data processing fees (external firms)	1,151
Collection fees (external firms)	973
Organization services fees (external firm)	165

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

€734 thousand

12.1 Net provisions for risks and charges: breakdown

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

Details	2013	2012
Provision for pension and similar obligations	631	375
Other provisions	102	60
Total	734	435

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

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

€1,217 thousand

Items/Net adjustments/ writebacks	Depreciation (a)	Impairment losses (b)	Impairment reversals (c)	Net result (a + b - c)
A. Property plant and equipment				
A.1 Owned assets				
- used in the business	1,217			1,217
- held for investment				
A.2 Leased assets acquired under finance leases				
- used in the business				
- held for investment				
Total	1,217			1,217

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

€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				
- generated internally				
- other	572			572
A.2 Leased assets acquired under finance leases				
Total	572			572

Section 15 - Other operating income/expenses - Item 220

€6,609 thousand

15.1 Other operating expenses: breakdown

Details	2013	2012
1. Operating expenses		
- Prior period items	(60)	(233)
- Rounding and rebates	(71)	(81)
- Other expenses		(2)
Total	(131)	(316)

15.2 Other operating income: breakdown

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 management of receivables	928	1,031
- Receivables realized at other than face value	2,134	1,136
- Prior year items	853	791
- Recovery of notary expenses from assignors	100	157
- Other income	312	400
Total	6,740	4,988

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

€35,624 thousand

20.1 Income taxes on profit from continuing operations: breakdown

Components/Sector	2013	2012
1. Current income taxes	35,307	28,876
2. Adjustment to current income taxes of prior years		
3. Reduction in current income taxes for the year		(113)
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	35,624	29,216

20.2 Reconciliation of theoretical tax and effective tax expense

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

Details	IRES	IRAP
Taxable profit used for purposes of tax calculations	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 - Consolidated Comprehensive Income

ANALYTICAL STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME

Item	Before tax effect	Tax effect	After tax effect
10. Profit for the year	X	X	48,912,826
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	591,144	(195,549)	395,593
140. Comprehensive income (10+130)	591,144	(195,549)	49,308,419
150. Attributable to non-controlling interests			
160. Attributable to owners of the parent	591,144	(195,549)	49,308,419

Part E - Information on Risks and related Risk Management Policies

All amounts are expressed in thousands of euros.

Introduction

The Banking Group has adopted a system of rules, practices and processes 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.

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

These policies define:

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

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

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

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

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

esses and procedures to meet every type of present and future risk, which take into account the strategies and changes of the context;

- overseeing the functioning of the process for the management of risk and ascertaining that it is being followed;
- monitoring the adequacy and effectiveness of the actions taken to resolve the weaknesses found in the risk management system;
- submitting periodical reports to the corporate bodies on the activities carried out and conferring with them on matters of risk management.

SECTION 1 – RISKS OF THE BANKING GROUP

1.1 – Credit risk

Qualitative information

1. General aspects

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

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

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, 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 Banking Group in relation to the risks connected with lending.

With this in mind, the Group uses the "Standardized" approach for the measurement of credit risk, as indicated in Bank of Italy Circular 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, ECAs, 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 the Banking Group's intention to use the ECAI ratings assigned 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 Banking Group's exposure.

The non-recourse receivables purchased by Farmafactoring España are weighted at 20% since the counterparties of reference of such exposures are represented by the "Comunidades" (i.e. the Spanish Regions) and not by the entities of the Public Administration.

The Banking Group constantly maintains, as a capital requirement covering credit risk, an amount of regulatory capital equal to at least 8% of the weighted exposure for credit risk.

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

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

On the basis of the above methodology, the consolidated capital requirement for credit risk at December 31, 2013 is equal to €52,984 thousand.

Moreover the "Credit Regulation" describes the stages of the process which the regulations of the sector have identified as components of the credit process:

- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the main risk factors, the principal activities carried out by the Bank are described as follows:

- receivables management only;
- non-recourse factoring;
- with recourse factoring.

Under “receivables management only”, the credit risk is 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 belonging to a banking group each risk-weighted position must be within the limit of 25% of regulatory capital;

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

Furthermore, Banca Farmafactoring files a monthly report to the Central Credit Register (Bank of Italy 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

An impairment test is performed on the receivables portfolio in order to identify any impairment of the financial assets.

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

Performing receivables

The measurement of performing receivables includes receivables from customers which, although past due more than 90 days, show no objective indication of impairment at an individual level.

This representation is consistent with the criterion of measuring non-recourse receivables purchased at “amortized cost” which, in fact, is based on discounting estimated future cash flows according to an estimate of the time to collection.

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

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

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

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

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

Specifically, at December 31, 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 of the Banking Group consist of non-performing receivables of Banca Farmafactoring, whose value, net of individual impairment losses, amounts 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 Group 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 Group does not have any positions classified as restructured exposures.

Doubtful

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

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

- do not belong to the “central administrations and central banks”, “territorial entities” and “public sector entities” portfolios;
- are past due on a continuing basis more than 270 days;
- the total amount of past due receivables represents a portion equal to at least 10% of the entire exposure.

At December 31, 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 company 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

This section, pursuant to Bank of Italy Circular 262 of December 22, 2005 – “*The Financial Statements of Banks: layout and preparation*” and subsequent updates, provides information solely in reference to the Banking Group composed of Banca Farmafactoring and Farmafactoring España.

In the cases expressly indicated, in which the aggregate of the companies included in consolidation should be considered, the data is reported also for the special purpose entities FF Finance, Farmafactoring SPV I and Farmafactoring SPV II.

In the tables that refer only to the Banking Group, the data must be reported gross of the transactions with the other companies included in the scope of consolidation.

A. Credit Quality

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

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

Portfolio/Quality	Banking Group						Other companies		Total
	Non-performing	Doubtful	Restructured exposures	Impaired Past due	Not impaired Past due	Other Assets	Imp. Past due	Other Assets	
1. Financial assets held for trading						5			5
2. Available-for-sale financial assets						81,992			81,992
3. Financial assets held-to-maturity									
4. Due from banks						118,197	207,747		325,944
5. Receivables and loans	2,368	195		5,803	180,745	947,467			1,136,578
6. Financial assets measured at fair value through profit or loss									0
7. Financial assets held for sale									0
8. Hedging derivatives									
2013	2,368	195		5,803	180,745	1,147,661	207,747		1,544,519
2012	11,820	842		5,810	186,879	1,141,072	36,773		1,383,196

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 €1,119,125 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 €180,745 thousand.

All of Banca Farmafactoring’s purchases of non-recourse receivables 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)

	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific impair. losses	Net exposure	Gross exposure	Portfolio impair. loss	Net exposure	
Portafogli/qualità							
A. Banking Group							
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				118,197		118,197	118,197
5. Receivables and loans	11,259	2,892	8,367	1,130,184	1,973	1,128,211	1,136,578
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
Total A	11,259	2,892	8,367	1,330,379	1,973	1,328,406	1,336,773
B. Other companies included in consolidation							
1. Financial assets held for trading							
2. Available-for-sale financial assets							
3. financial assets held-to-maturity							
4. Due from banks				207,747		207,747	207,747
5. Receivables and loans							
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
Total B				207,747		207,747	207,747
2013	11,259	2,892	8,367	1,538,125	1,973	1,536,152	1,544,519
2012	25,273	2,297	22,976	1,361,937	1,717	1,360,220	1,383,196

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

Exposure types/Amounts	Gross exposure	Specific impairment losses	Portfolio impairment losses	Net Exposure
A. BALANCE SHEET EXPOSURE				
a) Non-performing				
b) Doubtful				
c) Restructured exposures				
d) Impaired past due exposures				
e) Other assets	118,197			118,197
TOTAL A	118,197			118,197
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other	27			27
TOTAL B	27			27
TOTAL (A+B)	118,224			118,224

The Group did not purchase any impaired receivables.

A.1.6 Banking Group - 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	1,239,424		1,973	1,237,451
TOTAL A	1,250,683	2,892	1,973	1,245,818
B. OFF-BALANCE SHEET EXPOSURE				
a) Impaired				
b) Other				
TOTAL B				
TOTAL (A+B)	1,250,683	2,892	1,973	1,245,818

The Group did not purchase any impaired receivables.

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

Source/Category	Non-performing	Doubtful	Restructured exposures	Impaired Past due
A. Beginning gross impairments - of which: receivables sold but not derecognized	14,102	2,898		8,273
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 <i>bis</i> losses on sale				
C.5 transfer to other impaired exposures	(639)	(4)		
C.6 other decreases	(1)	(0)		(21)
D. Ending gross impairments - of which: exposures sold but not derecognized	4,636	196		6,427

A.1.8 Banking Group - 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 derecognitions	(100)			
C.4 transfer to other impaired exposures	(639)			
C.5 other decreases exposures	(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 Banking Group - 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		1,319,228					44,792	1,364,020
B. Derivatives								
B.1 Financial derivatives								
B.2 Credit derivatives								
C. Guarantees provided							22	22
D. Commitments to disburse funds								
E. Other								
Total		1,319,228					44,814	1,364,042

This table includes, under "Balance sheet exposure", the following items in the assets of the financial statements relative to the Banking Group:

- item 20 - Financial assets held for trading – for €5 thousand;
- item 40 - Available-for-sale financial assets (only debt instruments) – for €81,992 thousand;
- item 60 - Due from banks - for €118,197 thousand, equal to the balances on the bank current accounts that Banca Farmafactoring and Farmafactoring España have open at the end of the year;
- item 70 - Receivables and loans - for €1,163,827 thousand, equal to the sum of the outstanding exposures at December 31, 2013 of Banca Farmafactoring and Farmafactoring España, net of the intragroup loan, of €42,500 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 Banking Group - Distribution by segment of credit exposures on and off-balance sheet (carrying amount)**

Exposures/Counterparties	Governments			Other public sector entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
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	1,107,716		1,952
Total A	93,312		20	1,113,514	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	1,113,514	1,580	1,952
Total (A+B) 2012				1,220,429	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	28,949					
Total A	28,949					
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	28,949					
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 Banking Group - 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	46,152							
Total A	1,199,666	4,865	46,152							
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	1,199,666	4,865	46,152							
Total (A+B) 2012	1,235,900	4,014	6,314							

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 Banking Group - Geographical breakdown of credit exposures with banks on and off-balance sheet (carrying amount)

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net expos.	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
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		1,704							
Total A	116,493		1,704							
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		1,704							
Total (A+B) 2012	101,269		2,940							

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 €548,398 thousand for unweighted positions and €450,709 thousand for weighted positions.

However none of the positions exceed the individual limit of 25% of the regulatory capital of the Banking Group.

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 securitization transaction put into place in the second half of 2011 with Banca IMI was renewed 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.

Quantitative 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.

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

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.

Quantitative information

Type of financial instruments held

Banca Farmafactoring does not hold any financial instruments connected with the aforementioned transaction.

Sub-servicer activity

Banca Farmafactoring, having the mandate for collection, recovers and collects the receivables on behalf of the servicer Zenith Service S.p.A.

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.”

Qualitative information

Strategies, processes and objectives

During the first quarter of 2013 the securitization transaction structured 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 Banking Group - Exposure arising from securitization transactions by quality of underlying assets

Quality of underlying assets/ Exposure	Balance sheet exposure						Guarantees provided						Credit lines						
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		
	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	Gross exp.	Net exp.	
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 Banking Group - Exposure arising from the main "in-house" securitization transactions by type of securitized asset and by type of exposure

Type of securitized assets/Exposure	Balance sheet exposure						Guarantees provided						Credit lines						
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		
	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	Carrying amount	Impair. loss/rev.	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:

C.2.2 Banking Group - Financial liabilities compared to financial assets sold but not derecognized: carrying 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
Liabilities/ Assets portfolio							
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

1.2 Banking Group - Market risk

1.2.1 Interest rate risk and price risk – Regulatory trading portfolio

Qualitative information

A. General aspects

The Banking Group 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 Group, therefore, refers to the market risk on positions relating to such derivative financial instruments.

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

The amount of derivative instruments put into place to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be rendered at fixed rates, correlating the amount of the hedging to the portion of funding: 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	
<i>IRS plain vanilla, STEP-UP</i>	153,000,000	4,877	(547,608)	218
<i>Partial total</i>	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			

1.2.2 Interest rate risk and price risk - Banking portfolio

Qualitative information

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

For purposes of the assessment of interest rate risk, the Banking Group is guided by the methodology contained in the prudential regulation (Attachment C – Bank of Italy Circular 285). This methodology is applied monthly, in order to record on a timely and continual basis any loss in the present value of cash flows in the event of:

- a market shock determined on the basis of the annual changes in the interest rates recorded in the observation period of six years;
- 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 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 €6.7 million, and for a shock of a +200 basis points, of €14.4 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.

Quantitative information**1. Banking portfolio: distribution by residual maturity (repricing date) of financial assets and liabilities**

Currency: EURO

Type/Residual maturity	on demand	up to 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	5 to 10 years	over 10 years	Unspec. maturity
1. Balance sheet assets	332,707	61,728	183,924	352,461	432,437	758		
1.1 Debt securities			69,619		12,373			
- with prepayment option								
- other			69,619		12,373			
1.2 Loans to banks	166,808	750	639					
1.3 Loans to customers	215,899	60,978	113,667	352,461	420,064	758		
- current account								
- other loans	215,899	60,978	113,667	352,461	420,064	758		
- with prepayment option								
- other	215,899	60,978	113,667	352,461	420,064	758		
2. Balance sheet liabilities	457,066	416,879	255,000					
2.1 Due to customers	252,115	72,379						
- current account								
- other payables	252,115	72,379						
- with prepayment option								
- other	252,115	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								

1.2.3 Exchange rate risk

Qualitative information

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

Exchange rate risk is represented by the exposure of the Banking Group to fluctuations in exchange rates, considering both positions in foreign currency and those that provide for indexation clauses linked to the trend in the exchange rates of a specific currency.

The Group's asset portfolio is entirely expressed in euros; accordingly, the risk connected with the volatility of foreign currencies is to be considered non-existent.

Quantitative information

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

1.2.4 Derivative instruments

At December 31, 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 section, in paragraph 1.2.1 – 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: gross 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: gross 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 currency 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 currency 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

1.3 Banking Group – Liquidity risk**Qualitative information****A. General aspects, operational processes and methods for measuring liquidity risk**

Liquidity risk is represented by the possibility that the Group 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 Group 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 Group, 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 Group and the potential sources of liquidity risk;

- the operating procedures through which the Group monitors this risk, which include a diversification of short-term assets (operational liquidity management) and medium-term assets (structural liquidity management);

- the criteria for defining and carrying out stress tests, aimed at measuring in quantitative terms the capacity of the Group to meet potential adverse events that could affect the level of liquidity risk;

- the contingency funding plan in which the strategies and organizational and operating procedures are defined for the management of early warning, warning and crisis situations as well as the responsibilities below.

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

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

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

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

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

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

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

Currency: EURO

Items/Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	unspec. maturity
Balance sheet assets	338,496	4,454	1,605	6,681	47,762	128,717	363,551	513,998	855	
A.1 Government securities						12,554	448	68,000		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	338,496	4,454	1,605	6,681	47,762	116,163	363,103	445,998	855	
- due from banks	116,808	750				639				
- customers	221,688	3,704	1,605	6,681	47,762	115,525	363,103	445,998	855	
Balance sheet liabilities	457,066				68,898	29,980	293,000	280,000	320,000	
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									320,000	
B.3 Other liabilities	252,115				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										

2. Disclosure about encumbered assets recognized in the financial statements

Type	Encumbered		Unencumbered		Total 2013	Total 2012
	VB	FV	VB	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	973,467	X	1,282,024	1,346,423
5. Other financial assets		X	5	X	5	-
6. Non-financial assets		X	68,235	X	68,235	52,070
Total 2013	324,460	15,903	1,107,820	66,112	1,432,280	X
Total 2012	387,749	-	1,010,769	23	X	1,398,519

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. 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.

1.4 Banking Group – Operational risks

Qualitative information

1. General aspects, operational processes and methods for measuring operational risk

Operational risk is the risk of loss due to inadequacy or failures of procedures, caused by personnel and internal systems, or as a result of external events. Falling in this category, among other, are fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk comprises legal risks but not strategic and reputational risk.

Operational risk therefore refers to various types of events which would not be significant individually unless analyzed together and quantified for the entire category of risk.

In the Banking Group, the exposure to this category of risk 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 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. 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 following specific risks are also monitored:

- 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.

The Banking Group 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.

Operational risks are also assessed in connection with the introduction of new products, activities, relevant processes and systems and the consequence of any operational risk that may arise is mitigated 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 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 €15,056 thousand.

SECTION 3 – RISKS OF THE OTHER COMPANIES

The consolidated financial statements of the Banking Group reflect the aggregation of the elements of the balance sheets and income statements of the parent Banca Farmafactoring S.p.A., the wholly-owned subsidiary Farmafactoring España S.A. and the three special purpose entities FF Finance S.r.l, Farmafactoring SPV I S.r.l. and Farmafactoring SPV II S.r.l.

The three special purpose entities were set up for the securitization transactions structured with Banca IMI, with Deutsche Bank and with BayernLB and were included in the scope of consolidation because they meet the criteria set out in Interpretation SIC 12. SIC 12 establishes the obligation of consolidating a special purpose entity when, in the absence of an investment relationship, the company that prepares the financial statements, in substance, controls the special purpose entity.

These companies therefore do not show further and relevant elements of risk other than those mentioned in the preceding paragraphs.

Part F - Consolidated Equity

Section 1 - Consolidated equity

A. Qualitative information

The equity of the Banking Group is composed of the aggregate of share capital, reserves, valuation reserves and profit for the year.

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

B. Quantitative information

B.1 Consolidated equity: breakdown by type of company

Items/Amounts	Banking Group	Insurance companies	Other companies	Elim & cons. adjustmen.	Total
Share capital	130,900				130,900
Share premium					
Reserves	48,978				48,978
Equity instruments (Treasury shares)					
Valuation reserves					
- Available-for-sale financial assets	396				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)				(1)
- Share of valuation reserves from investments accounted for using the equity method					
- Special revaluation laws	3,823				3,823
Profit for the year attributable to the parent and non-controlling interests	48,913				48,913
Total	233,009				233,009

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

	Banking Group		Insurance companies		Other companies		Elim & cons. adjustmen.		12.31.2013	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	396								396	
2. Equity securities										
3. Units in investments funds										
4. Loans										
2013	396								396	
2012										

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. This measurement led to the recognition of a positive change of €396 thousand in the valuation reserve at December 31, 2013.

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

	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. Ending balance	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 Application of the regulation

The consolidated regulatory capital was determined in accordance with the instructions contained in Bank of Italy Circular 263 of December 27, 2006 - *"New prudential supervision regulations for banks"* - and subsequent updates, and Bank of Italy Circular 155 of December 18, 1991 - *"Instructions for regulatory reporting on regulatory capital and on prudential coefficients"* - and subsequent updates.

The new regulation harmonized for banks and investment companies, contained in the CRR community regulation (*Capital Requirements Regulation*) and in the European Directive CRD IV (*Capital Requirement Directive*) of June 26, 2013 is applicable from January 1, 2014 on the basis of 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.

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

2.2 Banking 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 Banking Group constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, also through its internal Risks Committee.

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

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 of the Bank 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

	31.12.2013	31.12.2012
A. Tier 1 before prudential filters	181,259	178,580
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)	181,259	178,580
D. Items to be deducted from Tier 1		
E. Total TIER 1 (C-D)	181,259	178,580
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		
L. Total TIER 2 (H-I)	4,020	3,823
M. Items to be deducted from Tier 1 and Tier 2		
N. Regulatory capital (E+L-M)	185,279	182,403
O. TIER 3		
P. Regulatory capital included in TIER 3 (N+O)	185,279	182,403

The increase in Regulatory Capital compared to the prior year is mainly due to undistributed earnings.

In reference to the contents of Bank of Italy Circular 285 of December 17, 2013 – Section II, Paragraph 2, last paragraph, wherein it is stated that “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” (option allowed by Bollettino di Vigilanza no. 12 of December 2013, in the paragraph relating to “Regulation on Own Funds), the board of directors of Banca Farmafactoring on January 24, 2014 resolved to exercise such option.

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

2.3 Capital adequacy

A. Qualitative information

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

The Tier 1 Capital Ratio is the ratio of 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%).

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.

The non-recourse receivables purchased by Farmafactoring España are weighted at 20% since the counterparties of reference of such exposures are represented by the “*Comunidad*” (the Regions) and not by the entities of the Public Administration.

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 21.0% for the Tier 1 Capital Ratio and 21.5% 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.

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

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

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

Counterparty risk

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

For Banca Farmafactoring, the counterparty risk is represented only by derivative contracts put in place 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 Group 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 Group measures market risk using the “Standardized” method outlined in Bank of Italy’s Circular 263. The regulation identifies and regulates the treatment of the various types of market risk in reference 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 Banking Group 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.

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	1,627,369	1,446,849	662,299	1,316,757
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			52,984	105,341
B.2 MARKET RISK				
1. Standardized approach			893	
2. Internal models				
3. Concentration risk				
B.3 OPERATIONAL RISK				
1. Basic indicator approach			15,056	14,562
2. Standardized approach				
3. Advanced measurement approach				
B.4 OTHER CAPITAL REQUIREMENTS				
B.5 OTHER CALCULATION ELEMENTS				
B.6 TOTAL CAPITAL REQUIREMENTS			68,933	119,903
C. RISK ASSETS AND CAPITAL RATIOS				
C.1 Risk-weighted assets			861,662	1,498,782
C.2 Tier 1/Risk-weighted assets <i>(Tier 1 capital ratio)</i>			21.0%	11.9%
C.3 Regulatory capital including Tier 3 / Risk-weighted assets <i>(Total capital ratio)</i>			21.5%	12.2%

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.

Part H - Related Party Transactions

1. Information on compensation to key executives

Banca Farmafactoring S.p.A.

- 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 of Banca Farmafactoring in the companies FF Holding S.p.A. and Farma Holding S.a.r.l. respectively; 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 14 of the balance sheet refer to payables and receivables with the parent, FF Holding S.p.A.

Banca Farmafactoring S.p.A. extended a loan to 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 by Banca Farmafactoring to FF Holding for consideration, including VAT, of €24.4 thousand.

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

Banca Farmafactoring S.p.A. has 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 required 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 profit for the year was appropriated for the partial coverage of prior years' losses. These losses, reported during the start-up phase, are not considered permanent and therefore no impairment loss was recognized on the investment.

Part L - Segment reporting

The Banca Farmafactoring Group at December 31, 2013 is composed of Banca Farmafactoring S.p.A., the parent, and the wholly-owned subsidiary Farmafactoring España S.A.

Banca Farmafactoring, as the subsidiary of Farmafactoring España S.A., is engaged in the management and sale of receivables due from the National Health Service and the Public Administration.

The Group thus acts as a financial and operational support for leading Italian and international companies in various segments of the product spectrum (mainly the pharmaceutical and biomedical sectors) through non-recourse factoring.

The Group's clientele, formed mainly by multinational companies in the pharmaceutical and biomedical segments, generate receivables due from the National Health Service and the Public Administration as a result of their business activities. The Group is also currently diversifying its operations into other product segments (Telecommunications and Utilities).

At the year-end reporting date, the Group is organized mainly as a single-sector and single-product entity and, through its companies, operates with procedures and policies for the assumption of risks in a homogeneous manner.

Consequently, the definition of distinctly identifiable parts which provide products or services within the same economic environment subject to separable risks and benefits are not relevant for purposes of the management of the Group. Therefore, segment reporting is in fact coincident with the entire business of the Group.

As for information relating to the breakdown by geographical area and by product segment of the customer, reference should be made to the tables in Part E of these Notes.

03 INDEPENDENT AUDITORS' REPORT





AUDITORS' REPORT

To the Board of Directors of
Banca Farmafactoring SpA

- 1 We have audited the consolidated financial statements, which comprise the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the related notes of Banca Farmafactoring SpA and its subsidiaries (Banca Farmafactoring Group) as of 31 December 2013. The directors of the Company are responsible for the preparation of these consolidated financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, integrated by the Bank of Italy's Circular of 22 December 2005 and subsequent updates. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This opinion is not issued by law, given the fact that Banca Farmafactoring SpA is not subject to mandatory audit of the consolidated financial statements pursuant to the applicable regulations for the financial year ended 2013.
- 2 We conducted our audit in accordance with the auditing standards issued by the the Italian accounting profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the 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. 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 consolidated financial statements for the year ended 31 December 2013.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.812.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521275911 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel. 0458263001

- 3 In our opinion, the consolidated financial statements of Banca Farmafactoring Group as of 31 December 2013 comply with comply with the International Financial Reporting Standards adopted by the European Union, integrated by the Bank of Italy's Circular of 22 December 2005 and subsequent updates; accordingly, they have been prepared clearly and give a true and fair view of the consolidated financial position, results of operations and cash flows of Banca Farmafactoring Group for the 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 n° 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 consolidated financial statements of Banca Farmafactoring Group as of 31 December 2013.

Milan, 19 May 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 statements refer to the financial statements in original Italian and not to their translation)

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Stampa: Arti Grafiche Baratelli

20149 Milan
Via Domenichino, 5
Phone +39 02 49905.1
Fax +39 02 4818157

00197 Rome
Via Bertoloni, 1/E int. F
Phone +39 06 809139.1
Fax +39 06 809139.41

info@bancafarmafactoring.it
www.bancafarmafactoring.it