Prospectus

BANCA FARMAFACTORING S.p.A.

(incorporated with limited liability under the laws of the Republic of Italy)

€150,000,000 1.25 per cent. Notes due 2021

The €150,000,000 1.25 per cent. Notes due 2021 (the "**Notes**") of Banca Farmafactoring S.p.A. (the "**Issuer**") are expected to be issued on 21 June 2016 (the "**Closing Date**") at an issue price of 99.233 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 21 June 2021. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the Republic of Italy, as described under "*Terms and Conditions of the Notes – Redemption for tax reasons*".

The Notes will bear interest from 21 June 2016 at the rate of 1.25 per cent. per annum, payable annually in arrear on 21 June each year commencing on 21 June 2017. Payments on the Notes will be made in Euros without deduction for or on account of taxes imposed or levied by the Republic of Italy to the extent described under "*Terms and Conditions of the Notes - Taxation*".

This prospectus (the "**Prospectus**") has been approved by the Central Bank of Ireland (the "**Central Bank**") as competent authority under Directive 2003/71/EC (as amended, including Directive 2010/73/EU, the "**Prospectus Directive**") and constitutes a prospectus for the purposes of the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any member state of the European Economic Area. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and trading on its regulated market.

This Prospectus is available for viewing on the Irish Stock Exchange's website (*www.ise.ie*).

An investment in the Notes involves certain risks. For a discussion of these risks, see "Risk Factors" on page 6.

The Notes will be in bearer form and in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. The Notes will initially be in the form of a temporary global note (the "**Temporary Global Note**"), which will be deposited on or around the Closing Date with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"). The Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (the "**Permanent Global Note**") not earlier than 40 days after the Closing Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership. The Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in definitive form. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Lead Manager

CITIGROUP

20 June 2016

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, to the best of its knowledge, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to Citigroup Global Markets Limited (the "**Lead Manager**") that this Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information contained herein (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and verify the foregoing.

This Prospectus should be read in conjunction with all information which is incorporated by reference in and forms part of this Prospectus (see "*Documents Incorporated by Reference*").

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved in writing for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Lead Manager.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied by the Issuer in connection with the offering of the Notes is correct as of any time subsequent to the date indicated in the document containing the same, or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus. The Issuer is under no obligation to update the information contained in this Prospectus after the initial distribution of the Notes and their admission to trading on the regulated market of the Irish Stock Exchange. Furthermore, save as required by applicable laws or regulations, or under the terms and conditions relating to the Notes, the Issuer does not intend to provide any post-issuance information to investors.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Lead Manager that any recipient of this Prospectus or any other information supplied in connection with the offering of the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the condition (financial or otherwise) and affairs of the Issuer, and its own appraisal of the Issuer's creditworthiness.

Neither this Prospectus nor any other information supplied in connection with the offering of the Notes constitutes an offer or invitation by or on behalf of the Issuer or the Lead Manager to any person to subscribe for or to purchase any Notes. The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Lead Manager to inform themselves about and to observe any such restrictions. Neither the Issuer nor the Lead Manager represents that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered in compliance with any applicable registration or other requirements in any such jurisdiction or pursuant to an exemption available thereunder, nor do they assume any responsibility for facilitating any such distribution or

offering. In particular, no action has been taken by the Issuer or the Lead Manager which is intended to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*". In particular, the Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language so that the correct technical meaning may be ascribed to them under applicable law.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables, including percentages, may not be an arithmetic aggregation of the figures which precede them.

MARKET SHARE INFORMATION AND STATISTICS

This Prospectus contains information and statistics which are derived from, or are based upon, the Issuer's analysis of data obtained from miscellaneous sources quoted in "*Description of the Issuer*" below. Such information has been identified where used and reproduced accurately in this Prospectus and, as far as the Issuer is aware and is able to ascertain from information published by those sources, no facts have been omitted which would render such reproduced information inaccurate or misleading.

FORWARD LOOKING STATEMENTS

This Prospectus contains certain statements that are, or may be deemed to be, forward-looking, including statements with respect to the Issuer's and the Group's business strategies, expansion of operations, trends in their business and their competitive advantage, information on technological and regulatory changes and information on exchange rate risk and generally includes all statements preceded by, followed by or that include the words "believe", "expect", "will", "project", "anticipate", "seek", "estimate" "aim", "intend", "plan", "continue" or similar expressions. By their nature, forward-looking statements involve known and unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors. Potential investors are cautioned not to place undue reliance on forward-looking statements, which are made only as at the date of this Prospectus.

The Issuer does not intend, and does not assume any obligation, to update forward-looking statements set out in this Prospectus. Many factors may cause the Issuer's or the Group's results of operations, financial condition and liquidity, and the development of the industries in which they

compete, to differ materially from those expressed or implied by the forward-looking statements contained in this Prospectus.

The risks described under "*Risk Factors*" in this Prospectus are not exhaustive. Other sections of this Prospectus describe additional factors that could adversely affect the Issuer's and the Group's results of operations, financial condition and liquidity, and the development of the industries in which they operate. New risks can emerge from time to time, and it is not possible for the Issuer to predict all such risks, nor can the Issuer assess the impact of all such risks on their business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not rely on forward looking statements as a prediction of actual results.

CERTAIN DEFINED TERMS

In this Prospectus, unless otherwise specified:

(i) "**Banca Farmafactoring**" or the "**Issuer**" means Banca Farmafactoring S.p.A., formerly known as Farmafactoring S.p.A.;

(ii) references to "**billions**" are to thousands of millions;

(iii) references to the "**Conditions**" are to the terms and conditions relating to the Notes set out in this Prospectus in the section "*Terms and Conditions of the Notes*" and any reference to a numbered "**Condition**" is to the correspondingly numbered provision of the Conditions;

(iv) references to **"€", "EUR"** or "**Euro**" are to the single currency introduced at the start of the third stage of the European Economic and Monetary Union and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended;

(v) the "**Fiscal Agent**" means Citibank, N.A., London Branch as fiscal agent;

(vi) the "**Group**" means the group consisting of the Issuer and its consolidated subsidiaries;

(vii) references to "**IFRS**" are to International Financial Reporting Standards, as adopted by the European Union;

(viii) the "**Lead Manager**" means Citigroup Global Markets Limited as lead manager; and

(ix) references to a "**Member State**" are to a Member State of the European Economic Area.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. In addition, the order in which the risk factors are presented below is not intended to be indicative either of the relative likelihood that each risk will materialise or of the magnitude of their potential impact on the business, financial condition and results of operations of the Issuer.

Prospective investors should also read the detailed information set out elsewhere in this Prospectus and consider carefully whether an investment in the Notes is suitable for them in the light of the information in this Prospectus and their personal circumstances, based upon their own judgment and upon advice from such financial, legal, tax and other professional advisers as they deem necessary.

Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Prospectus have the same meaning in this section. Prospective investors should read the whole of this Prospectus, including the information incorporated by reference.

Factors that may affect the Issuer's ability to fulfil its obligations under the Notes

Our business and results are affected by the current volatile macroeconomic environment

The global economy, the sovereign debt crisis in Europe, the condition of financial markets and adverse macroeconomic developments in our primary markets can all significantly influence our performance. Our earning capacity and stability can be affected by the overall economic situation and by the dynamics of the financial markets.

We generate a significant percentage of our operating income in Italy – 97.2% and 86.8% for the years ended 31 December 2014 and 2015 respectively[1] – and our results therefore depend in particular on economic conditions in Italy which, in turn, are affected by European and global economic trends. Italy's economic performance has been significantly influenced by the international crisis and has been characterised by stagnation. In particular, from the second half of 2011, the Italian economy went through a prolonged phase of recession that culminated at the end of 2014. Starting from 2015, the Italian economy has entered a phase of recovery, albeit weak, due to a gradual stabilisation in domestic demand, moderately favourable dynamics in foreign trade and an improved level of production with positive effects on employment.

Following the crisis that hit the global markets starting in August 2007, the global financial system and the financial markets have found themselves operating under difficult and unstable conditions that have required action by governments, central banks and supranational organisations to support financial institutions, including the injection of liquidity and direct intervention in the recapitalisation of some of these entities. This situation has negatively affected the financial markets and has particularly penalised banking systems such as those in Italy, Spain, and Portugal, where the exposure to sovereign debt is higher than the average for EU countries.

[1] *Source*: Internal management data (unaudited).

The scenarios described above have generated for European banks a slowdown in ordinary activity; a decline in the value of assets resulting from the decline in stock and bond prices; deterioration of the loan portfolio with an increase in non-performing loans; and situations of insolvency and additional costs caused by a write-down and reduction in the price of assets, with a consequent reduction in the ability to produce profits.

In addition, the introduction of austerity programmes has dampened economic growth, which could exacerbate the difficulty of Eurozone sovereigns and non-sovereigns in refinancing their debt as it comes due, further increasing pressure on the macroeconomic environment in the Eurozone and the global economy, which could have a material adverse effect on our business, results of operations and financial condition.

If the ECB continues to implement an expansionary monetary policy in the future involving a further reduction of interest rates, our customers may expect us to reduce our fees in line with market interest rates and the ECB's interventions and, as a result, unless we are able to reduce our funding costs, we may achieve lower margins. Furthermore, the ECB's expansionary monetary policy may provide our customers with access to different types of financing, which in turn could reduce their demand for our factoring services.

Even though tensions on the markets have eased, and some weak signs of recovery can be recognised, substantial volatility on the markets remains. New turmoil in the banking system and financial markets, further consolidation in the banking and financial services industry or market failures could trigger a further crunch in credit access, low liquidity level and significant volatility in the financial markets. Such factors could have a number of effects on our operations, including bankruptcy, financial instability or a reduction in the spending capacity of our clients, suppliers or partners, our inability to provide our products and services and the inability of our clients to access credit to finance the purchase of these services and products. Therefore, should Italian or global economic conditions worsen, our services and products may consequently decline due to a variety of factors, which could have a material adverse effect on our business, financial condition and results of operations.

Economic uncertainty and changes in the regulations affecting our customers and debtors

Our business involves managing and/or purchasing the receivables of our customers (which in large part are multinational companies) owed by their debtors (the majority of whom operate in the public administration sector, including national health systems). We are exposed to the risk that our customers or their debtors may become subject to bankruptcy or insolvency proceedings and, as a result, may not be able to meet their contractual obligations or enter into new contractual obligations or that debtors may cause the deterioration of our asset quality.

In the case of customers, this could entail non-payment of commission for our credit management services. With regard to services we provide to new or small customers, although we carry out credit analysis prior to engaging with them, there is an even higher risk that they may fail to pay commission for our credit management services.

In 2014, we expanded our non-recourse factoring business by also purchasing receivables owed by financially weak public entities, some of which at the time of purchase were already impaired assets. Such activities could result in an increase of our (net and gross) non-performing exposures. Although we determine the price of the receivables based on the financial position of the relevant debtors and the recovery rate and time to recovery, we may be exposed to capital losses and a general deterioration of asset quality as a result of our debtors' financial instability, which could have a material adverse effect on our business.

We are also exposed to risks connected with each of the countries in which we operate (Italy, Spain and Portugal). Although the risk of insolvency of public debtors in these countries is low, if the central

governments of these countries were to default, the public debtors themselves would no longer be able to rely on government funding and as a result would no longer be able to repay their debts.

Therefore, any deterioration in economic conditions or any changes in the regulatory landscape could have a material adverse effect on our business, results of operations and financial condition.

We derive a significant portion of our revenue from a limited number of customers

Most of our key customers are large multinational and Italian companies with whom we have built and maintained strong commercial relationships. For example, for the year ended 31 December 2015, 48% of the volume of receivables relating to our non-recourse factoring business derived from our top ten customers. Hence, any loss of any of key customers, or a significant decrease in the business generated from them, could have a material adverse effect on our business, results of operations and financial condition.

We may incorrectly evaluate the timing of future payments by debtors

We aim to estimate the income that we can generate from our receivables portfolio on the basis of our past experience and a database of information relating to debtors belonging to the Italian national health system gathered over the past 30 years.

The pricing of each receivable acquired in the context of our non-recourse factoring business is determined on the basis of our "days sales outstanding" ("**DSO**") and the credit assessment of the relevant customer and debtor. This formula allows us to manage the liquidity we need to run our business and determine our margins. Therefore, an extension of our DSO may cause our liquidity no longer to be sufficient to cover the financing needs of our non-recourse factoring business.

Although we carefully monitor the payment patterns of debtors through our database, which tracks payment patterns and average DSOs for each debtor in order to estimate the average timing for collection, we cannot rule out the possibility that our estimates are be incorrect. For example, we may not have sufficient information to make a correct pricing determination in respect of public administration debtors not belonging to the national health system. In addition, since our debtors are public bodies, following the implementation of certain legislative measures aimed at the reorganisation of the public administration (including the consolidation of local health authorities in a number of regions in Italy or the completion of mergers of municipalities in accordance with the so-called Stability Law 2016 (Law 208/2015)), our counterparties may be replaced by new entities and we may have to interact with new debtors not registered in our database, which could give rise to difficulties in estimating the DSOs and the pricing.

Increased inefficiencies in the national health system and public sector in Italy, Spain and Portugal, or deficiencies in their resources, could lead to longer DSOs and, as a result, our estimates of timing for collection and future liquidity could be incorrect and management costs could increase. This could have a material adverse effect on our business, results of operations and financial condition.

Efficiency measures by governments could significantly reduce DSO and demand for our services

We are exposed to the risk that the governments of the countries in which we operate could adopt measures aimed at improved efficiency of the national health system and public sector and of the reduction of DSOs. For example, starting from 2014 and 2012 the Italian and Spanish governments, respectively, have implemented measures aimed at making the relationship between the national health system/public sector and their suppliers more efficient by providing funds to the relevant public entities, thus shortening the timing for payment and ensuring the payment of receivables.

Although the above measures resulted in the reduction of DSOs only in the short-term, greater efficiency of the national health system and public administration – which could be achieved in the

future by the Italian, Spanish and Portuguese governments through the introduction of other new measures capable of eliminating entirely the structural issues in the public sector of their respective countries – could result in a reduction in (i) the demand for our services; (ii) our commission rates and the margin we receive; and (iii) DSOs, with a consequent reduction in income received from late payment interest and other types of interest. Any such changes could have a material adverse effect on our business, results of operations and financial condition.

Extensive regulation in the banking sector may adversely affect our business

We operate in a highly regulated environment for banks and the laws and government regulations related to our industry may change from time to time. In particular, we are subject to extensive regulation and supervision by the Bank of Italy, the European Central Bank and the European System of Central Banks. We are subject to law and regulations that govern the activities carried out by banks and are aimed at maintaining banks' safety and soundness and limiting their exposure to risk. In addition, we must comply with any financial services law which may apply to our marketing and selling activities.

We have established specific procedures and internal policies in order to comply with applicable regulations. However, we cannot rule out any breach of such regulations in the future, particularly with respect to anti-money laundering and fairness in dealing with clients, or any failure by the competent authorities to interpret such regulations correctly or any inspections by the Bank of Italy having a negative outcome. This could have a material adverse effect on our business, results of operations and financial condition.

The Basel III Proposals were implemented by the Capital Requirements Directive 2013/36/EU ("**CRD IV**") and Capital Requirements Regulation (Regulation (EU) No 575/2013) ("**CRR**"), which came into force following their adoption in June 2013. Full implementation began on 1 January 2014, with some elements to be phased in over a period of time. The requirements must become fully effective and applicable from 2019, though some minor transitional provisions will be introduced by 2024. Nevertheless, implementation in each country may require more time. See "*—We may be unable to meet the minimum capital adequacy requirements*" below.

In addition, in June 2012 the European Commission published the Bank Recovery and Resolution Directive (Directive 2014/59/EU) ("**BRRD**"), a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. The stated aim of the BRRD is to provide authorities with common tools and powers to address banking crisis pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses, including the so-called "bail-in" tool to be applied by Member States from 1 January 2016. The powers set out in the BRRD will affect how credit institutions and investment firms are managed, as well as, in certain circumstances, the right of creditors such as Noteholders, as described in further details under "*Risks relating to the Notes—The Bank Recovery and Resolution Directive may affect the Notes*".

As some of the banking laws and regulations which apply to our business have only recently been adopted, the manner in which those laws and regulations are applied to the operations of financial institutions is still evolving. There can be no assurance that such laws and regulations will be adopted, enforced or interpreted in a manner that will not have an adverse effect on our business, financial condition and results of operations.

In addition, our factoring business is subject to extensive and complex legislation and regulations, the most significant of which is Directive 2011/7/EU, which is applicable to late payments and establishes, among other things, the rate of late payment interest. The application of this directive in Italy, Spain and Portugal enables us to make, with a reasonable degree of certainty and uniformity, profit estimates for our non-recourse factoring business. Any changes to the current regulations, including at

an EU level, could lead to unanticipated costs and have a material adverse effect on our business, financial condition and results of operations. In particular, any significant reductions to late payment interest rates could adversely affect our profitability.

Directive 2014/49/EU on deposit guarantee schemes (the so-called "**Deposit Guarantee Schemes Directive**") introduced a new mixed funding mechanism based on ordinary contributions (*ex-ante*) and extraordinary contributions (*ex-post*) linked to the amount of covered deposits and the risk level of each member. As a result of the implementation of these measures, we have incurred costs of €1.6 million.

The introduction of new regulations in the future or any changes to the legislation currently in force in the countries in which we operate may require us to comply with new standards in ways that we cannot currently predict or restrict our ability to do business in those countries. As a result, we could incur additional costs for having to adapt the features of our products and services or distribution and control structures to comply with such new regulations. As a result, we may also have to limit our operations. This could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to meet the minimum capital adequacy requirements

Capital adequacy rules for banks set out the minimum capital, asset quality and risk mitigation instruments prudential requirements. The Basel III framework also provides for the creation of additional capital buffers in excess of the minimum requirements in order to provide banks with high quality capital resources to be used in times of market stress, to prevent any malfunctioning of the banking system and to avoid disruptions in the credit granting process, as well as to address the risks posed by systemically important banks at a global or domestic level. The total amount of such capital buffers is referred to as the combined capital buffer requirement (the "**Combined Capital Buffer Requirement**"). The Combined Capital Buffer Requirement must be met through CET1 capital items.

A failure to satisfy the Combined Capital Buffer Requirement (or the Capital Conservation Buffer) subjects banks to capital conservation measures, such as restrictions on dividend distributions. As at the date of this Prospectus we have complied with this requirement. However, if the Bank of Italy were to require additional capital buffers in the future, we may fail to meet such requirements or, in order to comply, we may have to divert funds which were intended to be used for our core activities. Any such requirements could also have a material adverse effect on our business, results of operations and financial condition.

As of 31 December 2015, the Core Equity Tier 1 capital ratio and Total Capital ratio of the Issuer and Farmafactoring España (which together formed a "banking group" for the purposes of article 64 of the Consolidated Banking Law were both equal to 24.3% (the same ratios determined in accordance with the criteria set out in the prudential recommendations of the Supervisory Authority in relation to the Group, which also includes BFF Luxembourg and BFF Lux Holdings, amounted to 23.9% and 24.1%, respectively, as of 31 December 2015). Although our capital adequacy levels currently exceed the regulatory limit, no assurance can be given that we will be able to maintain this capital adequacy level.

Furthermore, we cannot accurately predict whether future changes may be made to certain criteria established by the European Central Bank in the countries in which we operate and in particular, whether changes will be made to the exposure classes established by the CRR for states and central administrations (currently 0%) as well as local authorities (20%). Accordingly, such changes could make it more difficult for us to satisfy and comply with capital adequacy levels, standards and/or regulations.

There can be no assurances that our capital ratios will not fall below the minimum requirement in the future. If this were to occur, the ECB or Relevant Authorities may take action that could have a material adverse effect on our business, financial condition and results of operations.

Our exposure to Italian government sovereign debt is significant

We are exposed to the sovereign debt of the Italian government. The credit standing of the Italian government, like that of other sovereign states, is subject to monitoring and evaluation by rating agencies. The book value of Italian government securities held by us as of 31 December 2015 and 2014 were €1,252.3 million and €1,326.1 million, respectively. These securities represented 37.7% and 43.8% of our total assets, respectively. We are therefore exposed to changes in the value of Italian public debt securities. Any tensions in the government bonds market or any volatility could have a material adverse effect on our business, results of operation and financial condition.

Any downgrade of the credit rating of Italian sovereign debt and changes to interest rates could reduce the value of Italian government securities, which in turn could adversely affect our business, results of operations and financial condition. Furthermore, any increase in the cost of financing at sovereign debt level could have a negative impact on the financing costs of our business and limit the liquidity on which our business depends. In addition, the introduction of a more stringent weighting factor on government securities issued by the Italian government could have an adverse effect on our capital requirements with regard to government securities.

In addition, the risks generated by the government bonds portfolio could also result in credit risk and liquidity risk.

We are exposed to liquidity risk

Our businesses is subject to risks concerning liquidity , which are inherent in our banking and factoring operations and could affect our ability to meet our financial obligations as they fall due. In order to ensure that we continue to meet our funding obligations and to maintain or grow our business generally, we rely on ongoing access to bank financing, to the capital markets and to the market for online deposit accounts. In addition, our liquidity may be adversely affected by significant changes in DSOs of receivables (or incorrect assumptions of the same), which may cause a mismatching of assets and liabilities and affect our ability to meet financial obligations as they fall due. Our ability to access funding sources on favourable economic terms is dependent on a variety of factors, including a number of factors outside of our control, such as liquidity constraints, general market conditions and confidence in the Italian banking system.

The global financial crisis and resulting financial instability have significantly reduced the levels and availability of liquidity and term funding. In particular, the perception of counterparty credit risk between banks has increased significantly, resulting in reductions in inter-bank lending and the level of confidence from banks' customers. Should we be unable to continue to source a sustainable funding profile which can absorb these sudden shocks, our ability to fund our financial obligations at a competitive cost, or at all, could be affected which, in turn, could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to cover our exposure to credit, interest rate and market risk

To the extent that any of the instruments and strategies, including legal actions and the enforcement of claims, used by us to hedge or otherwise manage exposure to credit or market risk are not effective, we may not be able to mitigate effectively our risk exposure in particular market environments or against particular types of risk. Our trading revenues and interest rate risk are dependent upon our ability to identify properly, and mark to market, changes in the value of financial instruments caused by changes in market prices or interest rates. Our financial results also depend

upon how effectively we determine and assess the cost of credit and manage our credit risk and market risk concentration.

In addition, since our business is focused primarily in Italy and, to a lesser extent, in Spain and Portugal, and, following the acquisition of Magellan, in Poland, the Czech Republic and Slovakia, a return of adverse economic conditions in Italy, Spain, Portugal, Poland, the Czech Republic and Slovakia could have a significant effect on the credit profile of debtors and their ability to meet payment obligations when due, which, in turn, could have a material adverse effect on our business, results of operations and financial condition.

We depend on access to the capital markets to maintain liquidity

In order to carry out our business, in particular our non-recourse factoring business, we rely on stable and high quality capital resources. Historically we have always had sufficient capital resources to support our business. Furthermore, since we were granted a banking licence, we have been able to further diversify our funding sources.

However, there is no assurance that in the future we will be able to maintain the same conditions which permit us to access these financing sources, in terms of cost and availability. Our ability to access funding sources on favourable economic terms is dependent on a variety of factors, including some that are outside of our control, such as liquidity constraints, general market conditions and confidence in the Italian and European banking system. If we were no longer able to access and maintain funding sources or if we were unable to find sufficient financial resources for the operation of our business, this could have a material adverse effect on our business, results of operations and financial condition.

In addition, we carry out refinancing transactions with the ECB using trade eligible credits deriving from factoring activities with the public administration through the Collateralised Bank Assets (*Attivi Bancari Collaterali*) procedure ("**ABACO**") which allows us to access the Eurosystem by securing receivables owed by the public administration acquired as part of our non-recourse factoring business. ABACO is the procedure established by the Bank of Italy for the management of eligible loans and allows us to access financing by using receivables owed by the public administration as collateral for repayment of the loans which may be granted to us. If the rules relating to the access to the ABACO procedure and/or the type of eligible credit were to change in a way that is prejudicial to us, for example by excluding receivables owed by the public administration from the definition of eligible assets, this could negatively affect our business and we may need to access different types of financing and/or rely more heavily on the sources of funding we currently use. This could have a material adverse impact on our business, results of operations and financial condition.

The seasonal fluctuations in our volumes and revenue may result in disruptions to our operations

Our business is seasonal, since we tend to concentrate purchases of receivables at the end of the financial year and in the final month of each quarter in line with customers' financial reporting requirements, resulting in peaks in the use of capital and demand for liquidity. On the other hand, we carry out the collection of receivables at various times throughout the year. Therefore, each year we experience relatively high cyclicality in our financial statements and, in particular, significant changes to our assets on our balance sheet.

Our business is exposed to the risk that external factors (such as funding of the public sector) occurring during the periods in which our business experiences the seasonality peaks, could have disproportionate effects on our business operations. In particular, depending on the specific circumstances and the periods in which such events occur, our business could experience fluctuations

in terms of number of receivables, outstanding receivables or collections, which could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to meet the objectives of our growth strategy

We pursue a growth strategy designed to expand our business into different segments of the national health system and public administration in Italy, Spain and Portugal and into new and similar European markets. In order to achieve this growth strategy we have started to take advantage of cross-selling opportunities arising from: (i) a customer base primarily consisting of large multinational companies providing services to the public administration, including the national health system of the countries in which we operate and (ii) the similarities between the credit management and factoring processes. We cannot accurately predict whether such actions and the investments we have made will be effective or profitable.

Furthermore, in 2015 we entered into distribution agreements with financial institutions in Italy and Spain in order to market our products, including through our business network. If such distribution agreements were not properly performed or if our products were not properly represented or became associated with unethical behaviour, we could be exposed to reputational risks.

If any of these initiatives do not produce the growth or benefits we expected, this could have a material adverse effect on our business, results of operations and financial condition.

We may be unable to integrate Magellan's business successfully

We are exposed to risks related to the acquisition of Magellan (the "**Magellan Acquisition**") and its integration within our Group. Whether we can achieve synergies and growth as a result of our acquisition of Magellan will mainly depend on our capacity to integrate Magellan successfully within our Group. Difficulties could arise concerning the coordination of two different business models, management and staff as well as the integration of IT systems, structures and existing services. The integration of Magellan within our Group could also lead to higher costs. Furthermore, if we were unable to fully integrate the management control systems or operating procedures we could be subject to fines imposed by the competent authorities. Any failure to achieve desired synergies could have an adverse effect in terms of growth opportunities and the development of business volumes.

The Magellan Acquisition also involves risks connected with the growth in new markets (including Poland and to a lesser extent Slovakia and the Czech Republic) where we have not operated before and therefore do not have the same level of experience as that acquired on the Italian market, in particular if we are unable to retain Magellan's key management. We are also exposed to country risks related to Poland, Slovakia and the Czech Republic. With respect to such markets, there are certain risks connected with the default of central governments and the impact that this may have on debtors' ability to repay their debts, as well as any regulatory changes that could affect our credit management and non-recourse factoring businesses.

In addition, our acquisition of Magellan will have an effect on both own funds and capital adequacy ratios that is not currently possible to estimate accurately because, although Magellan is listed on the Warsaw Stock Exchange, it is not subject to banking regulation and is still in the process of adopting a set of procedures to comply with the requirements under the applicable banking regulation.

Therefore, our ability to integrate Magellan successfully into our business depends on many factors, many of which are outside our control. The acquisition of Magellan may disrupt our ongoing business and distract our management from other responsibilities. Any such disruption or manifestation of the above risks could have an adverse effect on our business, results of operations and financial condition.

Our business is exposed to a variety of operational risks, including fraud, errors, security breaches or other adverse events, some that are wholly or partially out of our control

In conducting our business we are exposed to different types of operational risk, such as the risk of losses resulting from: (i) internal or external fraud, (ii) customer claims and disputes, (iii) unauthorised activity or transactions, (iv) penalties for breaches of any applicable laws, (v) errors, omissions and delays in providing our services, (vi) inadequacy or incorrect functioning of internal procedures, including, in particular, failure to follow procedures for the identification, monitoring and management of business risks, (vii) shortcomings in the preparation and/or preservation of the documents relating to our transactions, (viii) human errors or lack of resources; and (ix) damage to property caused by weather, other conditions or natural disasters. Although we have a system of controls and procedures in place to mitigate and minimise the risks connected with our operations, prevent and/or limit their possible negative effect and use various resources to mitigate such risks, these measures may prove to be inadequate to cover all types of risks that could arise. One or more such risks could occur in the future as a result of unpredictable events wholly or partly outside of our control (for example, fraud, scams or losses due to employee negligence or misconduct or violation of control procedures). The occurrence of any of these risks could have an adverse effect on our business, results of operations and financial condition.

Our business activities require us to record and process a large number of transactions and handle large amounts of money accurately on a daily basis. The proper functioning of financial control, accounting or other data collection and processing systems is critical to our business and to our ability to compete effectively. A human or technological failure, error, omission or delay in recording or processing transactions, or any other material breakdown in internal controls, could subject us to claims for losses from clients, including claims for breach of contractual and other obligations, and to regulatory fines and penalties. Given our high volume of transactions, errors may be repeated or compounded before they are discovered and rectified, and there can be no assurance that risk assessments made in advance will adequately estimate the costs of these errors.

Additionally, we face the risk of theft, fraud or deception carried out by clients, third-party agents, employees and managers. If persons are able to circumvent our security measures, they could wrongfully use our confidential information or that of our clients, which could expose us to a risk of loss, regulatory consequences or litigation and could have a negative impact on our reputation and brand name, all of which could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, if any of our managers or employees engage in misconduct in carrying out their duties, the mechanisms we have in place may be deemed inadequate and we may be subject to sanctions (including fines and, in the most serious cases, disqualification, prohibition from carrying on our business, suspension or revocation of licences and authorisations) which could have an adverse effect on our business, results of operations and financial condition. In addition, we cannot rule out any future breach of money laundering legislation, for example by not properly carrying out background checks on customers.

Any malfunction or defect in our information technology systems could materially affect our ability to operate our business

Our business relies on the proper and uninterrupted functioning of our IT and data processing systems and, in particular, our “factoring system”. We have made significant investments to develop a secure and reliable IT system. However, we cannot rule out the possibility that any serious failure of the factoring system or of our disaster recovery plan or any external IT attacks could interrupt our business or materially affect our activities.

Risks related to technology and cyber-security change rapidly and require continued innovation and investment. Given the rapidly increasing sophistication and scope of potential cyber-attack, future attacks may lead to significant breaches in our security. Any of these disruptions, the inability to manage cyber-security risk adequately, or the interception of confidential or proprietary information could give rise to losses in service to our customers and to loss or liability to our Group.

We use information systems that enable integration among the distribution structure, internal operating structures and software applications through which customers access the services offered. Any malfunctioning or interruption of these information systems, due to internal or external factors, could expose our business to operational, strategic and reputational risks. In addition, our ability to remain competitive depends in part on our ability to upgrade our information technology on a timely and cost-effective basis. We may not be able to maintain the level of capital expenditure necessary to support the improvement or upgrading of our information technology infrastructure. If the design of our controls and procedures prove inadequate, or are circumvented, delays in detection or errors in information may occur and our reputation could be damaged and/or our competitive position weakened.

Any serious or repeated system failure could result in the loss of information on payment patterns and timing contained in our database or such information becoming inaccurate or unreliable and could compromise our ability to competitively purchase or manage receivables, which could have a material adverse effect on our business, results of operations and financial condition.

We collect, store and process sensitive personal data of our customers

In carrying out our activities we collect, store and process the personal and business data of our customers. We also adopt internal procedures and measures to regulate access to data by our own staff and its treatment in order to prevent unauthorised access and treatment.

We are exposed to the risk that the procedures implemented and the measures adopted may prove not to be adequate and/or in compliance with laws and regulations and/or promptly or properly implemented by employees and associates (possibly due to continuous changes in the rules and procedures themselves). Thus, the data could be subject to damage, loss or theft, or disclosure or processing for purposes other than those authorised by the customers, or even use by unauthorised parties (whether third parties or employees of companies of the Group).

Furthermore, as our business is subject to the Code of Ethics of the Data Protection Authority (*Autorità Garante per la Protezione dei Dati Personali*), any changes in such legislation, including at EU level, could force us to bear the costs of adapting to the new legislation.

If any of these circumstances occur they could have a material adverse effect on the Group's business, including its reputation, and the application of administrative and criminal penalties by the Data Protection Authority on one or more companies of the Group or their representatives, which could have a material adverse effect on our business, results of operation and financial condition.

Our risk management policies, procedures and methods may leave us exposed to unidentified or unanticipated risks

We believe we have in place an adequate risk management system, internal control and human resources department which allow us to identify, monitor and manage potential risks (so-called "risk management") that we are exposed to in the course of our business, including credit, counterparty, liquidity, market, interest rate, concentration, operational and IT risks.

We have developed specific policies and procedures which provide for corrective mechanisms to be applied before potential risks reach certain thresholds set by the Bank of Italy or by our Board of Directors. Methods used to monitor and manage these risks include analysis of historic market trends and the use of statistical models for the identification, monitoring, control and management of risks.

If the policies and procedures we use to identify, monitor and manage risk turn out to be inadequate, or our assessments and assumptions turn out to be inaccurate, thus exposing us to unforeseen and unquantified risks, we may incur significant losses, which could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, even if our internal procedures for the identification and management of risk are adequate, the occurrence of certain events that cannot be predicted or quantified (in light of the uncertainty and volatility that currently characterises global markets) may increase such risks, which could have a material adverse effect on our business, results of operations and financial condition.

We are dependent on third-party suppliers and service providers

We outsource certain important services to third parties. In particular, we have agreements with such third parties in place for the outsourcing of: (i) services relating to the development, integration and management of an IT platform for certain back-end activities connected with banking operations (such as the management of the term deposit account Conto Facto and Cuenta Facto, the collection of notices received from the Bank of Italy and the Bank of Spain and a database containing customer and debtor information) and (ii) certain services relating to the opening of deposit accounts and customer background checks.

We face the risk of omission, error, delay or interruption by our suppliers in the provision of their services, which could result in discrepancies between contractually agreed service levels and those actually provided. In addition, service level continuity could be disrupted by the occurrence of events having a negative impact on suppliers, such as a filing for bankruptcy or the commencement of insolvency proceedings against them. This could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to attract and retain key personnel

The results and the future success of our business depend on our ability to attract, retain and motivate highly skilled individuals within our management team who have expertise in the business sector in which we operate.

Our business and the sector in which we operate depend on a relatively small number of key individuals. As of 31 December 2015 the Group only had 188 employees. The loss of one or more key individuals or our inability to attract and retain further qualified personnel could cause our business to lose its competitive advantage. Although in the past three years there has been no turnover of our senior managers, we cannot guarantee that we will be able to attract and retain the qualified personnel upon which our business relies.

In addition, we invest a considerable amount of time and resources in training our employees to be highly qualified and, as a result, our employees are often sought after by competitors. We may not be able to recruit and retain such personnel at levels consistent with our salary structure since some competitors may be able to offer more favourable working conditions. In addition, any changes to European banking legislation could impose limits on the compensation of our managers, which might make it more difficult for us to attract and retain qualified management.

Any inability to attract or retain qualified personnel could have a material adverse effect on our business, results of operations and financial condition.

We are involved in disputes, investigations and legal proceedings which could have a material adverse effect on us

In the ordinary course of our business, we are exposed to the risk of being party to legal, civil, administrative and tax proceedings or actions. Although we believe that we have set aside sufficient reserves to cover ongoing proceedings, we cannot predict with certainty the outcome of such

proceedings, which may be unfavourable for us, or whether new unexpected proceedings may arise, both of which could have a material adverse effect on our business, results of operations and financial condition. See also "*Description of the Issuer — Legal Proceedings*".

Calculation methods used to estimate the recoverability of late payment interest may affect our profit, capital and cash flows

We calculate late payment interest on non-recourse receivables that we have purchased in accordance with applicable law (Legislative Decree No. 231/2002, implementing Directive 2011/7/EU on combating late payment in commercial transactions). For the purposes of preparing our financial statements IFRS (IAS 18) permits the inclusion of interest in a company's income statement only if it is likely to generate positive cash flows for a company and such projected cash flows can be estimated reliably.

Until 31 December 2013, as we did not have at our disposal evaluation tools to collect historical data and calculate reliable estimates of the recovery percentage of late payment interest and the timing for collection, we did not recognise non-invoiced late payment interest accrued on our portfolio, and we completely wrote off any invoiced and uncollected late payment interest by creating a provision recorded as a reduction of assets. Concurrently with the actual collection of the late payment interest, the write-off was reversed and such amounts were recognised in our income statements, based on the percentage of actual recovery. As of the year ended 31 December 2013, the total amount of late payment interest owed to us – the late payment interest fund – was €386 million[2].

In 2014 we adopted evaluation tools that allow us to collect historical data and calculate reliable estimates of the percentage of late payment interest that will be recovered and of the timing for collection. Accordingly, since the year ended 31 December 2014, on the basis of our historical data on collected amounts and timing for collection, the estimated percentage of late payment interest that will be collected is 40% of its nominal value and the estimated timeframe for collection is within 1800 days.

As this method is based on estimates, there is a risk that the percentages of future collections from late payment interest actually received by us will not match with those estimated in our financial statements. Furthermore, there is also a risk that in the future, when updating our historical data, we may need to adjust receivables recorded in previous years, as well as estimates of our predicted cash flows, recalculate the value of the late payment interest fund and record the effects of these changes in our income statement. A misalignment between our estimates and our actual results could have a material adverse effect on our business, results of operations and financial condition.

Our business is dependent on continued government spending on national health services and other segments of the public administration

We operate in the market of expenditure in goods and services for which the governments of Italy, Spain and Portugal allocate funds to their public bodies, in particular the national health system and other segments of the public administration.

We are exposed to the risk that such governments, following a deterioration of the macroeconomic situation or the introduction of more stringent restrictions on public spending, may significantly reduce the funds allocated for expenditure in goods and services by the national health system and the public administration, which could result in a reduction of the volumes of receivables in the sector in which we operate and have a material adverse effect on our business, results of operations and financial condition.

[2] *Source*: Internal management data (unaudited).

The recent introduction of the so-called "split payment" of VAT for transactions involving public bodies could affect the way we operate our business

Italian Law No. 190 of December 23, 2014 (the "**Stability Law 2015**") introduced, among other things, various changes to the VAT regime relating to transactions carried out by public bodies, including debtors within the Italian national health system and the public administration.

In particular, the Stability Law 2015 introduced article 17-*ter* into Presidential Decree No. 633/1972, which provides that from 1 January 2015, public bodies will be liable to pay directly to tax authorities for the amount of VAT on certain goods and services supplied to them. The payment of invoices is therefore split between tax authorities, with respect to the VAT amount, and the supplier, with respect to the amount subject to VAT (the so-called "split payment"). As a consequence, the total amount of receivables owed by public bodies to suppliers to be purchased by us, as part of our non-recourse factoring business, may be materially reduced.

Since the mechanism also affects the application of European Union tax, its application has been submitted for authorisation to the European Council. By decision No. 2015/1401/EU, the European Council authorised the application of the split payment treatment with effect from 1 January 2015, but also required its disapplication from 31 December 2017. We cannot rule out that the application of the split payment treatment could be extended by the European Council for a further period after 31 December 2017, which could result in a material reduction of the volume of receivables managed by us as part of our non-recourse business and, therefore, have a material adverse effect on our business, results of operations and financial condition.

Changes in tax laws or the tax rate to which we are subject could materially affect our profit, capital and financial position

We are currently subject to taxation in Italy (Banca Farmafactoring S.p.A.) and in Spain (Farmafactoring España S.A. and the Spanish branch of Banca Farmafactoring S.p.A.). Any future changes in tax rates as applied to us could be affected by the proportion of profits earned in countries having different tax rates, changes in the calculation of deferred taxes or changes to tax law and its interpretation.

Since 2013, we have benefited from a favourable tax regime introduced by Law Decree No. 201 of 6 December 2011, converted into law, following amendments, by Law No. 214 of 22 December 2011 (the so-called "*Aiuto alla crescita economica* ("***ACE***")), which introduced a tax reduction for highly capitalised businesses. In particular, the favourable tax regime is based on the deduction of an amount corresponding to the notional return on its new capital from the total net income declared. Although this regime has resulted in, and for the 2016 tax year is expected to result in, a significant tax saving for us, we cannot rule out a decrease in the percentage rate for the tax periods following 31 December 2016, which could have a material adverse effect on our business, results of operations and financial condition.

Furthermore, we conduct transactions between related parties residing in different countries in the ordinary course of business. These transactions (such as funding and the provision of services) are subject to transfer pricing rules established by the Organization for Economic Cooperation and Development (OECD) and any applicable national laws. Given the complexity of such rules, there is a degree of uncertainty with regard to their interpretation and application. Although we believe that we are currently in compliance with the applicable transfer pricing rules, there is a risk that the methods adopted by us may be contested by the relevant competent authorities, which could result in tax enquiries and investigations against us. Tax enquiries and investigations may result in fines or higher tax liabilities, which could have a material adverse effect on our business, results of operations and financial condition.

We are subject to regulations which require us to avoid significant debtor concentration

Pursuant to the rules imposing limits on the assumption of risk by banks, which are set out in the Supervisory Regulations for Banks (*Disposizioni di Vigilanza per le Banche*) issued by the Bank of Italy (Circular No. 285 of 17 December 2013, as subsequently amended), banks are required to limit their exposure, with respect to any individual debtor, to 25% of their eligible capital. Although we are currently in compliance with this requirement, any failure to comply following the occurrence of events beyond our control (for example, future mergers between our debtors) and any risk connected with the consolidation of local health authorities that has been taking place in certain regions of Italy in recent years and that will occur in other regions as well in the near future could have a material adverse effect on our business, results of operations and financial condition. Furthermore, compliance with the 25% exposure limits with respect to individual debtors described above could restrict our growth in terms of asset volumes and could cause a potential breakdown of our relationship with customers if, for example, in order to comply with such limits, we were forced to turn down business from one or more customers, which could have a material adverse effect on our business, results of operations and financial condition.

We may not be able to predict fluctuations in interest rates accurately

Interest from our non-recourse factoring business depends on our ability to correctly identify and assess the purchase price applicable to customers for the purchase of receivables based on market position, taking into account that our cost of funding includes a fixed rate of interest. A fluctuation in interest rates may cause our financing costs estimates (which are assessed at the time of purchase of the receivable) no longer to be sufficient to cover our non-recourse factoring business. We have developed procedures to allow us to make assessments on the value of the receivable at the time of purchase. However, no assurance can be provided that such assessments will accurately reflect the potential variation of interest rates. Therefore, fluctuations in interest rates outsides of the parameters provided for in our assessments could have a material adverse effect on our business, results of operations and financial condition.

We operate in a highly competitive market and may not be able to maintain our current market share

Although we are one of the main players in the markets in which we operate and the number of competitors is relatively low, our competitors may penetrate or consolidate their position in these markets, attract our customers and deprive us of a significant market share by offering more innovative products and services. If we are unable to maintain our market position in the future it is likely to have a material adverse effect on our business, results of operations and financial condition.

Risk relating to the Notes

The Notes are fixed rate securities and are vulnerable to fluctuations in market interest rates

The Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital markets (the "**Market Interest Rate**"). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security moves in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. Conversely, if the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until its yield is approximately equal to the Market Interest Rate. Investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in the light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes may be redeemed for tax reasons

In the event that the Issuer would be obliged under the Terms and Conditions of the Notes to increase the amounts payable in respect of any Notes due to any change in or amendment to the laws or regulations of the Republic of Italy or any political subdivision thereof or any authority therein or thereof having power to tax or any change in the application or official interpretation of such laws or regulations, the Issuer may redeem all outstanding Notes in accordance with the Conditions. If the Issuer calls and redeems the Notes in the circumstances mentioned above, the Noteholders may not be able to reinvest the redemption proceeds in comparable securities offering a yield as high as that of the Notes.

Investors must rely on the procedures of the clearing systems

The Notes will be deposited with a common safekeeper for Euroclear and Clearstream (the "**ICSDs**"). Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive Definitive Notes. While the Notes are represented by one or more Global Notes, the ICSDs will maintain records of the beneficial interests in the Global Notes and investors will be able to trade their beneficial interests only through the ICSDs. Similarly, the Issuer will discharge its payment obligations under the Notes by making payments to the ICSDs for distribution to their accountholders and has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes. A holder of a beneficial interest in a Global Note must therefore rely on the procedures of the ICSDs to receive payments under the relevant Notes.

In addition, holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by the ICSDs to appoint appropriate proxies.

The Notes are unsecured

The Notes constitute unsecured obligations of the Issuer and, save as provided in Condition 4 (*Negative Pledge*), do not contain any restriction on the giving of security by the Issuer and its Subsidiaries over present and future indebtedness. All secured indebtedness of the Issuer, present or future, will be senior to the Notes to the extent of the value of the assets that secure such indebtedness. Accordingly, in the event of any insolvency or winding-up of the Issuer, the proceeds from the sale of the assets securing the Issuer's secured indebtedness will be available to pay obligations on the Notes only after all secured indebtedness has been paid in full.

The Bank Recovery and Resolution Directive may affect Notes

As described in "- *Factors that may affect the Issuer's ability to fulfil its obligations under the Notes – Extensive regulation in the banking sector may adversely affect our business*" above, the Bank Recovery and Resolution Directive gives wide powers to governments aimed at addressing banking crises pre-emptively in order to safeguard financial stability and minimise taxpayers' exposure to losses. These include the so-called "bail-in tool", by which resolution authorities would have the power to write down the claims of senior unsecured creditors of a failing institution (which would be likely to include holders of the Notes), as well as its subordinated creditors, and to convert unsecured debt claims to equity (subject to certain parameters as to which liabilities would be eligible for the bail-in tool).

The BRRD has required Member States to modify their national insolvency regimes so that deposits of natural persons and micro, small and medium-sized enterprises in excess of the coverage level contemplated by deposit guarantee schemes created pursuant to Directive 2014/49/EU have a ranking in normal insolvency proceedings which is higher than the ranking which applies to claims of ordinary, unsecured, non-preferred creditors, such as holders of the Notes. Furthermore, the BRRD does not prevent Member States, including Italy, from amending national insolvency regimes to provide other types of creditors, such as holders of corporate deposits or other operating liabilities of the Issuer with rankings in insolvency higher than ordinary, unsecured, non-preferred creditors.

As a result, significant amounts of liabilities that previously would have ranked *pari passu* with the Notes under the national insolvency regime in Italy will now be ranked higher than the Notes in normal insolvency proceedings and, on application of the general bail-in tool, such creditors will now be written-down or converted into equity after the Notes, meaning that holders of the Notes will therefore be subject to greater losses than the claims of such other creditors. Furthermore, the right of holders of the Notes have only very limited rights to challenge and/or seek a suspension of any decision by resolution authorities or to have it reviewed by a judicial or administrative process or otherwise.

The measures set out in the BRRD, including the senior debt bail-in, have already been implemented in Italy, taking effect from 1 January 2016. The powers set out in the BRRD will have a significant impact on how credit institutions and investment firms are managed as well as, in certain circumstances, the rights of creditors. As a result, holders of the Notes may be subject to write-down or conversion into equity on any application of the general bail-in tool, which may result in their losing some or all of their investment. The exercise of any power under the BRRD or any suggestion of such exercise could, therefore, have a material adverse effect on the rights of Noteholders, the price or value of their investment in any Notes and/or the ability of the Issuer to satisfy its obligations under any Notes.

Minimum denomination of the Notes

The Notes will be issued in denominations of €100,000 or higher integral multiples of €1,000, up to and including a maximum denomination of €199,000. Although Notes cannot be traded in amounts of less than their minimum denomination of €100,000, they may nonetheless be traded in amounts that

will result in a Noteholder holding a principal amount of less than €100,000. Any such principal amount would not be tradeable while the Notes are in the form of a Global Note and, if definitive Notes were issued, such Noteholder would not receive a definitive Note in respect of its holding and, consequently, would need to purchase a principal amount of Notes so as to increase such holding to at least €100,000. If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of €100,000 may be illiquid and difficult to trade.

Payments under the Notes may be made subject to withholding or deduction of tax

All payments in respect of Notes will be made free and clear of withholding or deduction of Italian taxation, unless the withholding or deduction is required by law. In that event, the Issuer will pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding or deduction been required. The Issuer's obligation to gross up is, however, subject to a number of exceptions, including in particular withholding or deduction of Italian substitute tax (*imposta sostitutiva*), pursuant to Italian Legislative Decree No. 239 of 1 April 1996.

Prospective purchasers of Notes should consult their tax advisers as to the overall tax consequences of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws of any country or territory. See also the section of this Prospectus entitled "*Taxation*".

FATCA may affect payments made in respect of the Notes

With respect to Notes issued after the date that is six months after the date on which final U.S. Treasury regulations defining the term “foreign passthru payment” are filed with the U.S. Federal Register (such applicable date the “**Grandfathering Date**”) (and any Notes which are treated as equity for U.S. federal tax purposes, , whenever issued), the Issuer may, under certain circumstances, be required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (“**FATCA**”) to withhold U.S. tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as “foreign passthru payments” made on or after 1 January 2019 to an investor or any other non-U.S. financial institution through which payment on the Notes is made that is not in compliance with FATCA. As of the date of this Prospectus, final U.S. Treasury regulations defining the term “foreign passthru payments” have not been filed with the U.S. Federal Register. If the Issuer issues further Notes after the Grandfathering Date that were originally issued on or before the Grandfathering Date, payments on such further Notes may be subject to withholding under FATCA and, should the originally issued Notes of that Series and the further Notes be indistinguishable (as would likely be the case in such a “tap” issue), such payments on the originally issued Notes may also become subject to withholding under FATCA, unless such further Notes are issued pursuant to a “qualified reopening” for U.S. federal income tax purposes.

The United States and Italy have entered into a Model 1 intergovernmental agreement to implement FATCA (the “**Italian IGA**”). Under the Italian IGA, an entity classified as a non-U.S. financial institution (an “**FFI**”) that is treated as resident in Italy is expected to provide the Italian tax authorities with certain information on certain U.S. holders of its securities. Information on U.S. holders will be automatically exchanged with the U.S. taxing authorities. The Issuer is classified as an FFI and provided it complies with the requirements of the Italian IGA and the Italian legislation implementing the Italian IGA, it should not be subject to FATCA withholding on any payments it receives and it is not currently required to withhold tax on any “foreign passthru payments” that it makes. Although the Issuer may not be required to withhold FATCA taxes in respect of any foreign passthru payments it makes under the Italian IGA, FATCA withholding may apply in respect of any payments made on the Notes by any paying agent

The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder's failure to comply with FATCA, none of the Issuer, any paying agent or any other person would pursuant to the Terms and Conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax.

Change of law or administrative practice

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus.

Decisions at Noteholders' meetings bind all Noteholders

Provisions for calling meetings of Noteholders are contained in the Agency Agreement and summarised in Condition 13(a) (*Meetings of Noteholders*). Noteholders' meetings may be called to consider matters affecting Noteholders' interests generally, including modifications to the terms and conditions relating to the Notes. These provisions permit defined majorities to bind all Noteholders, including those who did not attend and vote at the relevant meeting or who voted against the majority. Possible modifications to the Notes include, without limitation, lowering the ranking of the Notes, reducing the amount of principal and interest payable on the Notes, changing the time and manner of payment, changing provisions relating to redemption, limiting remedies on the Notes and changing the amendment provisions. Any such modification may have an adverse impact on Noteholders' rights and on the market value of the Notes

Risks related to the market generally

Set out below is a brief description of the principal market risks.

There is no active trading market for the Notes and one cannot be assured

Application has been made for the Notes to be admitted to listing on the official list of the Irish Stock Exchange and trading on its regulated market. The Notes are new securities for which there is currently no market. There can be no assurance as to the liquidity of any market that may develop for the Notes, the ability of Noteholders to sell such Notes or the price at which the Notes may be sold. The liquidity of any market for the Notes will depend on the number of holders of the Notes, prevailing interest rates, the market for similar securities and a number of other factors. In an illiquid market, the Noteholders might not be able to sell their Notes at any time at fair market prices. There can be no assurance that an active trading market for the Notes will develop or, if one does develop, that it will be maintained. If an active trading market does not develop or cannot be maintained, this could have a material adverse effect on the liquidity and trading prices for the Notes.

The liquidity and market value of the Notes may also be significantly affected by factors such as variations in the Group's financial condition and results of operations, news announcements or changes in general market conditions. In addition, broad market fluctuations and general economic and political conditions may adversely affect the market value of the Notes, regardless of the actual performance of the Group.

Delisting of the Notes

Application has been made for the Notes to be listed on the Official List and admitted to trading on the regulated market of the Irish Stock Exchange. The Notes may subsequently be delisted despite the best efforts of the Issuer to maintain such listing and, although no assurance is made as to the liquidity of the Notes as a result of listing, any delisting of the Notes may have a material effect on a Noteholder's ability to resell the Notes on the secondary market.

Transfers of the Notes may be restricted, which may adversely affect the secondary market liquidity and/or trading prices of the Notes

The ability to transfer the Notes may also be restricted by securities laws or regulations of certain countries or regulatory bodies. The Notes have not been, and will not be, registered under the Securities Act or any state securities laws in the U.S. or the securities laws of any other jurisdiction. Noteholders may not offer the Notes in the United States to or for the account or benefit of a U.S. person except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. It is the obligation of each Noteholder to ensure that offers and sales of Notes comply with all applicable securities laws. In addition, transfers to certain persons in certain other jurisdictions may be limited by law, or may result in the imposition of penalties or liability. For a description of restrictions which may be applicable to transfers of the Notes, see "*Subscription and Sale*".

The Notes are not rated and credit ratings may not reflect all risks

Neither the Notes nor the long-term debt of the Issuer are rated. To the extent that any credit rating agencies assign credit ratings to the Notes or any other senior unsecured indebtedness of the Issuer, such ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating or the absence of a rating is not a recommendation to buy, sell or hold Notes and may be revised, withdrawn or suspended by the rating agency at any time.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

DOCUMENTS INCORPORATED BY REFERENCE

The following financial information is incorporated in, and forms part of, this Prospectus:

(i) the audited consolidated annual financial statements of the Group as at and for the year ended 31 December 2015, which can be found on the Issuer's website at:

http://www.bancafarmafactoring.it/documents/33221/49036/BFF+Bilancio+Consolidato+2015+UK/3839f7b7-6b92-4a6b-a316-3df77a32b998

(ii) the audited consolidated annual financial statements of the Group as at and for the year ended 31 December 2014, which can be found on the Issuer's website at:

http://www.bancafarmafactoring.it/documents/33221/49036/BFF+Bilancio+Consolidato+2014+UK/007ea01f-148c-4b80-9495-c7cc60c6a4d9

in each case prepared in accordance with IFRS and together with the accompanying notes and auditors' reports.

Cross-reference list

The tables below show where the information incorporated by reference in this Prospectus can be found in the above-mentioned documents.

Document	**Page number(s)**	
Audited consolidated annual financial statements		
	2015	**2014**
Consolidated balance sheet	58 – 59	56 – 57
Consolidated income statement	60	58
Consolidated statement of comprehensive income	61	59
Consolidated statement of changes in consolidated equity	62 – 63	60 – 61
Consolidated statement of cash flows	64 – 65	62 – 63
Notes to the consolidated financial statements	66 – 190	64 – 200
Independent auditors' report	191 – 193	201 – 203

Information contained in the above documents other than the information listed in the cross-reference list above is considered additional information and is not required by the relevant schedules of Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive.

The financial statements referred to above are available both in the original Italian and in English. Only the English language versions are incorporated by reference in, and form part of, this Prospectus. The English language versions are direct translations from the Italian language documents but, in the event of any inconsistencies or discrepancies between the Italian and English language versions, the original Italian versions will prevail.

This Prospectus should be read and construed together with the information incorporated by reference herein. Copies of any document incorporated by reference in this Prospectus are available free of charge at the specified office of the Fiscal Agent, unless such documents have been modified or superseded.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which (subject to completion and amendment) will be endorsed on each Note in definitive form. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to Notes in definitive form to the extent described in the next section of this Prospectus entitled "Summary of Provisions relating to the Notes in Global Form".

The €150,000,000 1.25 per cent. Notes due 2021 (the "**Notes**") of Banca Farmafactoring S.p.A. (the "**Issuer**") are the subject of a fiscal agency agreement dated 21 June 2016 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer and Citibank, N.A., London Branch as fiscal agent (in such capacity, the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and as paying agent (in such capacity, the "**Paying Agent**" and, together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Agency Agreement and subject to its detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. Copies of the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Definitions and Interpretation

(a) ***Definitions***

In these Conditions:

"**Business Day**" means:

(i) in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place; or

(ii) in the case of payment by credit or transfer to a Euro account, a TARGET Settlement Day;

"**Calculation Amount**" means €1,000 in principal amount of Notes;

"**Consolidated Operating Income**" means, in respect of any Relevant Period, the consolidated operating income of the Group for that Relevant Period;

"**Consolidated Profit Before Tax** " means, in respect of any Relevant Period, the consolidated profit before tax from continuing operations of the Group for that Relevant Period;

"**Consolidated Total Assets**" means, in respect of any Relevant Period, the consolidated total assets of the Group as at the end date of that Relevant Period;

"**Day Count Fraction**" means (i) the actual number of days in the period from and including the date from which interest begins to accrue (the "**Accrual Date**") to but excluding the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date;

"**Deed of Substitution**" means a deed poll substantially in the form annexed to the Agency Agreement;

"**Extraordinary Resolution**" has the meaning given to it in the Agency Agreement;

"**FATCA**" has the meaning given to it in Condition 7(c) (*Payments subject to fiscal laws*);

"**Farmafactoring España**" means Farmafactoring España S.A., a company incorporated under the laws of Spain with its registered office at C/Luchana, 23, 28010, Madrid, Spain;

"**Group**" means the Issuer and its Subsidiaries from time to time, taken as a whole;

"**Indebtedness**" means any indebtedness (whether being principal, premium or interest) of any Person for or in respect of money borrowed or raised, including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases; and

(iv) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having substantially the same commercial effect as borrowing;

"**Interest Payment Date**" means 21 June in each year;

"**Intermediate Holding Company**" means a Subsidiary of the Issuer which itself has Subsidiaries;

"**Issue Date**" means 21 June 2016;

"**Material Subsidiary**" means, at any time, Farmafactoring España (for so long as it remains a Subsidiary of the Issuer) and any Subsidiary of the Issuer which (consolidated with its own Subsidiaries, if any) accounts for at least 10 per cent. of the Consolidated Operating Income, Consolidated Profit Before Tax or Consolidated Total Assets and, for these purposes:

(i) the Consolidated Operating Income, Consolidated Profit Before Tax and Consolidated Total Assets will be determined by reference to the then latest audited consolidated annual financial statements of the Group (the "**Relevant Consolidated Financial Statements**");

(ii) the operating income, profit from continuing operations before tax and total assets of each Subsidiary of the Issuer (the "**Relevant Line Items**") will be determined by reference to the annual financial statements (whether or not audited) of such Subsidiary and those of its own Subsidiaries (if any), in each case upon which the Relevant Consolidated Financial Statements have been based;

provided that: (A) if a Person has become a Subsidiary of the Issuer after the date on which the Relevant Consolidated Financial Statements have been prepared, the Relevant Line Items of that Subsidiary will be determined by reference to its latest annual financial statements (whether or not audited), consolidated if that Subsidiary itself has Subsidiaries; (B) where an Intermediate Holding Company has one or more Subsidiaries at least one of which, under this definition, is a Material Subsidiary, then such Intermediate Holding Company will be deemed to be a Material Subsidiary; and (C) the Relevant Consolidated Financial Statements and the corresponding financial statements of each relevant Subsidiary will be adjusted (where appropriate) to reflect fairly the Relevant Line Items of, or represented by, any Person, business or assets subsequently acquired or disposed of;

"**Permitted Reorganisation**" means any reorganisation, amalgamation, merger, demerger, consolidation, contribution in kind or restructuring or other similar transaction, in each case whilst solvent:

(i) on terms previously approved by an Extraordinary Resolution of Noteholders;

(ii) in the case of a Material Subsidiary, whereby the assets and undertaking of such Material Subsidiary are transferred, sold, contributed, assigned or otherwise vested in the Issuer and/or another Material Subsidiary;

(iii) with respect to Condition 9(g) (*Cessation of business*) only, whereby the Issuer or a Material Subsidiary sells, transfers, leases, exchanges or otherwise disposes of its business (or a Substantial Part thereof) (whether in the form of property or assets, including any receivables, shares, interest or other equivalents or corporate stock or other indicia of ownership) that is made on arm's length terms for a consideration that represents or is equivalent to the fair market value of the relevant business (or part thereof), as confirmed by the Issuer's Board of Directors; or

(iv) in the case of the Issuer, whereby the assets and undertaking of the Issuer, including equity interests in Subsidiaries, or (in the case of a demerger) all or substantially all of such assets and undertaking, are vested in a body corporate in good standing (the "**Substitute**") and:

(A) the Substitute is a bank duly incorporated and licensed to operate in Italy or in another Member State of the European Union;

(B) the Substitute assumes the obligations of principal debtor under the Notes by operation of Italian law under the doctrine of universal succession, failing which on or prior to completion of the transaction it executes and delivers a Deed of Substitution, a supplemental agency agreement and such other documents (if any), together with (where applicable) the other parties to the Agency Agreement, as may be necessary to give full effect to the substitution of such body corporate for the Issuer (such documents, including any supplemental agency agreement, the "**Additional Documents**");

(C) a certificate of the Substitute, signed by two directors or by a director and the Chief Financial Officer of the Substitute and addressed to the Fiscal Agent has been made available to the Noteholders at the Specified Offices of the Fiscal Agent, confirming the Substitute's belief that neither (1) the ability to perform the payment obligations of the principal debtor under the Notes nor (2) the rights and interests of Noteholders will be impaired as a result of the transaction;

(D) all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Notes, the Deed of Substitution and/or the Additional Documents (as applicable) represent valid, legally binding and enforceable obligations of the Substitute have been taken, fulfilled and done and are in full force and effect;

(E) the Substitute has obtained opinions from lawyers of recognised standing as to matters of Italian law and (if different) of the jurisdiction of the place of incorporation of the Substitute, confirming as follows:

(1) fulfilment of the condition in paragraph (D) above (subject to all applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles);

(2) that the Substitute is validly incorporated under the laws of its jurisdiction with power and capacity to assume and perform the obligations under the Notes, the Deed of Substitution and/or the Additional Documents (as applicable); and

(3) that the Substitute has obtained all necessary approvals and consents (including governmental and regulatory consents) for the assumption and performance of its obligations,

and from lawyers of recognised standing as to matters of English law confirming the matters set out in (1) above, all such opinions to be made available to Noteholders at the Specified Offices of the Fiscal Agent, together with the Deed of Substitution and the Additional Documents (if any); and

(F) not later than 15 days after the execution of any Deed of Substitution and any Additional Documents, the Substitute shall give notice thereof to the Noteholders in accordance with Condition 15 (*Notices*),

and, following any such transaction, any reference in these Conditions to the "**Issuer**" shall be a reference to the Substitute and references to obligations under the Notes in Conditions 9(b) (*Breach of other obligations*), (j) (*Failure to take action, etc*) and (k) (*Unlawfulness*) shall be deemed to include obligations under the Deed of Substitution and the Additional Documents (if any);

"**Permitted Security Interest**" means:

(i) any Security Interest arising by operation of law and in the ordinary course of business of the Issuer or a Material Subsidiary which does not (either alone or together with any one or more other such Security Interests) materially impair the operations of such business and which has not been enforced against the assets to which it attaches;

(ii) any Security Interest existing over the assets of a company which becomes a Material Subsidiary after the Issue Date where such Security Interest already exists at the time that such company becomes a Material Subsidiary *provided that* (A) such Security Interest was not created in contemplation of or in connection with that company becoming a Material Subsidiary, (B) the amounts secured by such Security Interest are not increased in contemplation of or in connection with that company becoming a Material Subsidiary of the Issuer or at any time thereafter;

(iii) any Security Interest created in connection with, or pursuant to, a securitisation, asset-backed financing or like arrangement where the payment obligations in respect of the Indebtedness secured by the relevant Security Interest are to be discharged solely from the revenues generated by the present or future assets (including receivables) over which such Security Interest is created; and

(iv) any Security Interest created by the Issuer or a Material Subsidiary for the purposes of an issue by the Issuer of covered bonds (*obbligazioni bancarie garantite*) in accordance with Italian Law No. 130 of 30 April 1999, as amended and implemented from time to time;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality;

"**Rate of Interest**" means 1.25 per cent. per annum;

"**Relevant Date**" means, in relation to any Note or Coupon, the date on which payment in respect thereof first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given to the holders of Notes in accordance with Condition 15 (*Notices*) that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, *provided that* payment is in fact made upon such presentation;

"**Relevant Indebtedness**" means any present or future Indebtedness (whether being principal, premium, interest or other amounts) which is in the form of or represented by any note, bond, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, traded, quoted, listed or dealt in on any stock exchange, over-the-counter or other securities market;

"**Relevant Period**" means a twelve-month period ending on 31 December in each year;

"**Reserved Matter**" has the meaning given to it in the Agency Agreement and includes any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Security Interest**" means any mortgage, charge, pledge, lien or other form of security interest including, without limitation, anything substantially analogous to any of the foregoing under the laws of any applicable jurisdiction;

"**Subsidiary**" means, in respect of the Issuer at any particular time, any *società controllata*, as defined in Article 2359 of the Italian Civil Code;

"**Substantial Part**" means, at any particular time, 30 per cent. or more of the Consolidated Total Assets or the Consolidated Operating Income, as calculated by reference to the then latest audited annual consolidated financial statements of the Issuer;

"**TARGET Settlement Day**" means any day on which the TARGET System is open for the settlement of payments in euro; and

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system (TARGET2).

(b) ***Interpretation***

In these Conditions:

(i) "**outstanding**" has the meaning given to it in the Agency Agreement;

(ii) any reference to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under Condition 8 (*Taxation*); and

(iii) any reference to the Notes includes (unless the context requires otherwise) any other securities issued pursuant to Condition 14 (*Further Issues*) and forming a single series with the Notes.

2. Form, Denomination and Title

The Notes are in bearer form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000 with Coupons attached at the time of issue. Notes of one denomination will not be exchangeable for Notes of another denomination. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

3. Status

The Notes constitute direct, general, unconditional and, subject to the provisions of Condition 4 (*Negative pledge*), unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, present and future, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

4. Negative Pledge

So long as any Note remains outstanding, the Issuer shall not, and the Issuer shall procure that none of its Material Subsidiaries will, create or permit to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure (i) any Relevant Indebtedness or (ii) any guarantee and/or indemnity in relation to any Relevant Indebtedness, without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

5. Interest

The Notes bear interest from the Issue Date at the Rate of Interest, payable annually in arrear on each Interest Payment Date, subject as provided in Condition 7 (*Payments*). The first Interest Payment Date will be 21 June 2017.

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be €12.50 per Calculation Amount. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Note divided by the Calculation Amount.

6. Redemption and Purchase

(a) ***Scheduled redemption***

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 21 June 2021, subject as provided in Condition 7 (*Payments*).

(b) ***Redemption for tax reasons***

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Republic of Italy or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the Issue Date; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given (i) earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due and (ii) unless, at the time such notice is given, such change or amendment remains in effect (or due to take effect).

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent:

(A) a certificate signed by two duly authorised officers of the Issuer stating that it is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

(c) ***No other redemption***

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 6(a) (*Scheduled Redemption*) and (b) (*Redemption for tax reasons*) above.

(d) ***Purchase***

The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all unmatured Coupons are purchased therewith.

(e) ***Cancellation***

All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

7. Payments

(a) ***Principal***

Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by Euro cheque drawn on, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System.

(b) ***Interest***

Payments of interest shall, subject to Condition 7(f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in Condition 7(a) (*Principal*) above.

(c) ***Payments subject to fiscal laws***

All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof or any law implementing an intergovernmental approach thereto ("**FATCA**"). No commissions or expenses shall be charged by or on behalf of the Issuer or any of its agents to the Noteholders or Couponholders in respect of such payments.

(d) ***Deduction for unmatured Coupons***

If a Note is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment, *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment; or

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment, *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment, *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the

case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 7(a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

(e) ***Payments on business days***

If the due date for payment of any amount in respect of any Note or Coupon is not a Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(f) ***Payments other than in respect of matured Coupons***

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States.

(g) ***Partial payments***

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

8. Taxation

(a) ***Gross-up***

All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Italy or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(i) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Italy other than the mere holding of the Note or Coupon; or

(ii) in relation to any payment or deduction of any interest, principal or other proceeds of any Note or Coupon on account of *imposta sostitutiva*, pursuant to Italian Legislative Decree No. 239 of 1 April 1996 ("**Decree No. 239**") and related implementing regulations, as amended, supplemented or re-enacted from time to time; or

(iii) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law, or any treaty or agreement between one or more taxing jurisdictions, implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) by or on behalf of a holder who would have been able to avoid such withholding or deduction by (A) presenting the relevant Note or Coupon to another available Paying Agent in a Member State of the European Union or (B) making a declaration of non-residence or other similar claim for an exemption; or

(v) in each case, in which the formalities to obtain an exemption from *imposta sostitutiva* under Decree No. 239 have not been complied with, except where such formalities have not been complied with due to the actions or omissions of the Issuer or its agents; or

(vi) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

(b) ***Taxing jurisdiction***

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Republic of Italy, references in these Conditions to the Republic of Italy shall be construed as references to the Republic of Italy and/or such other jurisdiction.

(c) ***FATCA***

For the avoidance of doubt, the Issuer will have no obligation to pay additional amounts in respect of the Notes for any amounts required to be withheld or deducted pursuant to FATCA if withholding is imposed under those rules as a result of the failure by any person other than the Issuer or any of its agents to establish that they are able to receive payments free of such withholding.

9. Events of Default

If any of the following events occurs:

(a) ***Non-payment****:* the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within five days of the due date for payment thereof; or

(b) ***Breach of other obligations****:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes under these Conditions and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer, has been delivered by or on behalf of any Noteholder to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) ***Cross-default of Issuer or Subsidiary****:*

(i) any Indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of default (however described);

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee and/or indemnity given by it in relation to any Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraphs (i) and/or (ii) above and/or the amount payable under any guarantee and/or indemnity referred to in sub-paragraph (iii) above individually or in the aggregate exceeds €20,000,000 (or its equivalent in any other currency or currencies); or

(d) ***Unsatisfied judgment****:* one or more judgment(s) or order(s) for the payment of any amount in excess of €20,000,000 (or its equivalent in any other currency or currencies) is rendered against the Issuer or any of its Subsidiaries and continue(s) unsatisfied and unstayed for a period of 45 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) ***Enforcement****:* a secured party takes possession of, or a receiver, manager or other similar officer is appointed (or application for any such appointment is made) in respect of, all or a Substantial Part of the undertaking, assets and revenues of the Group, or a distress, execution, attachment, sequestration or other process is levied, enforced upon or put in force against all or a Substantial Part of the undertaking, assets and revenues of the Group and such secured party, receiver, manager or other similar officer is not discharged within 45 days; or

(f) ***Insolvency, etc****:* (i) the Issuer or any of its Material Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator, liquidator or other similar officer is appointed in respect of the Issuer or any of its Subsidiaries or the whole or any Substantial Part of the undertaking, assets and revenues of the Group (or application for any such appointment is made), (iii) the Issuer or any of its Material Subsidiaries takes any action for a general readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or any class of its creditors, or (iv) the Issuer or any of its Material Subsidiaries declares or proposes a moratorium in respect of any of its Indebtedness or any guarantee and/or indemnity given by it in relation to any Indebtedness;

(g) ***Cessation of business****:* the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or a Substantial Part of the business of the Group (otherwise than for the purposes of, or pursuant to, a Permitted Reorganisation and, for the avoidance of doubt, the transfer of receivables and securities by the Issuer or any of its Subsidiaries in the ordinary course of business will not constitute a cessation of business);

(h) ***Winding up, etc****:* an order is made by any competent court or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Material Subsidiaries (otherwise than for the purposes of, or pursuant to, a Permitted Reorganisation); or

(i) ***Analogous event****:* any event occurs which under the laws of any applicable jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (h) (*Winding up, etc.*) above; or

(j) ***Failure to take action etc***: any action, condition or thing (including, without limitation, the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence or order) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, perform and comply with its obligations under and in respect of the Notes and the Agency Agreement, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes and the Coupons admissible in evidence in the courts of the Republic of Italy is not taken, fulfilled or done; or

(k) ***Unlawfulness****:* it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Agency Agreement, unless the matter giving rise to such unlawfulness is promptly remedied by the Issuer,

then any Note may, by written notice addressed by the holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality.

10. Prescription

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

11. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Paying Agent may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

12. Paying Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain (a) a fiscal agent, (b) for so long as the Notes are listed on the Irish Stock Exchange and it is a requirement of applicable laws and regulations, a paying agent in the Republic of Ireland (c) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC and (d) a paying agent in a jurisdiction within the European Union, other than the Republic of Italy or (if different) the jurisdiction to which the Issuer is subject for the purpose of Condition 8(b) (*Taxing jurisdiction*).

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

13. Meetings of Noteholders; Noteholders' Representative; Modification

(a) ***Meetings of Noteholders***

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more Persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, one or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an

Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) ***Modification***

The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is not materially prejudicial to the interests of the Noteholders. In addition, the parties to the Agency Agreement may agree, without the consent of the Noteholders, to modify any provision thereof in order to comply with mandatory laws, legislation, rules and regulations of the Republic of Italy applicable to the convening of meetings, quorums and the majorities required to pass an Extraordinary Resolution.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

15. Notices

Notices to the Noteholders shall be valid if published in a reputable leading English language daily newspaper published in London with an international circulation and, for so long as the Notes are admitted to trading on the regulated market of the Irish Stock Exchange and it is a requirement of applicable laws and regulations, on the website of the Irish Stock Exchange (*www.ise.ie*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

16. Currency Indemnity

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. Governing Law and Jurisdiction

(a) ***Governing law***

The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

(b) ***Jurisdiction***

The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes (including any non-contractual obligation arising out of or in connection with the Notes). The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(c) ***Proceedings outside England***

Condition 17(b) (*Jurisdiction*) is for the benefit of Noteholders only. To the extent allowed by law, any Noteholder may take (i) proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction and (ii) concurrent Proceedings in any number of jurisdictions.

(d) ***Process agent***

The Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, at its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such Person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer or it ceases to be registered in England or, for any other reason, is unable or unwilling to act in such capacity, the Issuer shall immediately appoint a further Person in England to accept service of process on its behalf. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

There will appear at the foot of the Conditions endorsed on each Note in definitive form the names and Specified Offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

*The following is a summary of the provisions to be contained in the Temporary Global Note and the Permanent Global Note (together, the "**Global Notes**") which will apply to, and in some cases modify, the Terms and Conditions of the Notes while the Notes are represented by the Global Notes.*

Initial form of Notes

The Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Closing Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

Eligibility of the Notes for Eurosystem monetary policy

The Notes will be issued in new global note form and, as such, are intended to be held in a manner which will allow for them to be eligible as collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem. This means that the Notes are upon issue deposited with one of the international central securities depositories (ICSDs) as common safekeeper but does not necessarily mean that the Notes will actually be recognised as eligible, either upon issue or at any time during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria and other obligations, as specified by the European Central Bank from time to time. As at the date of this Prospectus, one of the Eurosystem eligibility criteria for debt securities is an investment grade rating and, accordingly, as the Notes are unrated, they are not currently expected to satisfy the requirements for Eurosystem eligibility.

Exchange for Permanent Global Notes

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Closing Date, upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Tradeable amounts

So long as the Notes are represented by a Global Note and the relevant clearing system(s) so permit, the Notes will be tradeable only in (i) the minimum authorised denomination of €100,000 and (ii) higher denominations which are integral multiples of €1,000, up to and including €199,000.

Exchange for Definitive Notes

The Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form ("**Definitive Notes**") in denominations of €100,000 and higher integral multiples of €1,000, up to and including €199,000, at the request of the bearer of the Permanent Global Note if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached (in respect of interest which has not already been paid in full on the Permanent Global Note), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(i) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(ii) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (i) above) or at 5.00 p.m. (London time) on such due date (in the case of (ii) above) and the bearer of the Permanent Global Note will have no further rights thereunder, but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under a deed of covenant executed by the Issuer dated 21 June 2016 (the "**Deed of Covenant**"). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream, Luxembourg as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes that they were shown as holding in the records of Euroclear and/or (as the case may be) Clearstream, Luxembourg.

Modifications to Terms and Conditions of the Notes

In addition, the Global Notes will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Notes. The following is a summary of certain of those provisions:

Payments

All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days

In the case of all payments made in respect of the Temporary Global Note and the Permanent Global Note, "**Business Day**" means any day which is a TARGET Settlement Day.

Notices

Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by the Permanent Global Note and/or the Temporary Global Note, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg, except that, for so long as such Notes are admitted to trading on the Irish Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in the Republic of Ireland or published on the website of the Irish Stock Exchange (*www.ise.ie*).

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used for general corporate purposes of the Group.

DESCRIPTION OF THE ISSUER

Overview

Banca Farmafactoring S.p.A. ("**Banca Farmafactoring**", the "**Issuer**", "**us**" or "**we**") is a bank that specialises in the management, collection and non-recourse factoring of receivables due to third party suppliers primarily from the agencies of national healthcare systems and other public administration entities. We operate primarily in Italy (where for the year ended 31 December 2015, we generated 86.8% of our operating income) and, to a lesser extent, in Spain (where for the year ended 31 December 2015, we generated 10.5% of our operating income) through our subsidiary Farmafactoring España S.A. ("**Farmafactoring España**") and in Portugal (where for the year ended 31 December 2015, we generated 2.7% of our operating income). We are also the sole shareholder of Mediona spółka z ograniczoną odpowiedzialnością ("**Mediona**" and, together with its subsidiaries, the "**Mediona Group**") and we exercise control over the special purpose entity Farmafactoring SPV I S.r.l. ("**Farmafactoring SPV**" and, together with Farmafactoring España, Mediona Group and the Issuer, the "**Group**"). We are one of the leading operators in the Italian and Spanish factoring markets[3].

The two main business segments in which we operate are: (i) credit collection management ("**Credit Collection Management**") and (ii) non-recourse factoring ("**Non-Recourse Factoring**").

Our Credit Collection Management business in Italy and Spain involves the management of the recovery and collection of receivables owed mainly to third party suppliers of national healthcare systems and/or public administration entities ("**Suppliers**"), including the management of administrative issues arising in the process of credit collection and credit collection actions, both in court and out of court, and other ancillary services such as electronic invoicing and credit certification in Italy. Our income in this segment derives primarily from (i) credit loading commission and (ii) credit collection commission.

As part of our Non-Recourse Factoring business in Italy, Spain and Portugal, we purchase the principal amount and ancillary income (including late payment interest and other income) of receivables mainly owed to Suppliers, thereby acquiring full ownership of those receivables (including the risk of non-payment). The receivables we acquire are generally overdue and, in such case, they bear late payment interest. Our income in this segment derives primarily from (i) fixed commission and (ii) late payment interest.

In September 2014, with the launch of our *Conto Facto* online restricted deposit account ("**Conto Facto**") on the Italian market, we started operating in a new business segment, namely the collection of savings from the public, through which, *inter alia*, we expanded our client base to include retail and corporate clients. For further information on our business segments, see "*Business Segments*".

The table below shows the revenue (and percentage of the total) we generated in our Credit Collection Management and Non-Recourse Factoring segments during the years ended 31 December 2015 and 2014 (and percentage of the total) during the same periods.

	2015		2014	
	Amount	% of Total	Amount	% of Total
	(€ billions, except percentages)			
Credit Collection Management	8.4	5.2	9.4	3.7
Non-Recourse Factoring	154.5	94.8	246.1	96.3
Total revenue	162.9	100.0	255.5	100.0

[3] *Source*: For Italy, elaboration of data from the Italian National Factoring Association (*Associazione Nazionale per il Factoring*) ("**Assifact**"); for Spain, data from the Spanish Factoring Association (*Asociación Española de Factoring*) ("**FAE**").

We have been operating in the Italian market since 1985. In over thirty years we have become an important business partner of suppliers to the public administration and, in particular, of companies operating in the pharmaceutical, diagnostics and biomedical sectors and have established and developed relationships with the largest debtors and creditors in the healthcare sector, through which we have acquired an extensive knowledge of procedures and have established full geographical coverage in Italy.

In recent years we have expanded our activities into Spain and Portugal. In 2011, to respond to the needs of certain multinational companies that already formed part of our client base in Italy, we started providing Credit Collection Management and Non-Recourse Factoring services in Spain in respect of receivables due from the Spanish national healthcare system and the Spanish public administration. Since 2014, we have also provided Non-Recourse Factoring services in Portugal in connection with receivables due from the Portuguese national healthcare system.

Over the past three years we have taken important steps to diversify and expand our funding resources while also significantly reducing our funding costs.

In January 2013, we obtained a banking licence in Italy, which allows us to operate in the international market as a banking institution and to collect retail savings. In June 2014, we placed our first senior unsecured bond issue, which had an aggregate principal amount of €300 million, a fixed coupon of 2.75% and a maturity date in 2017. In 2015 we started the Non-Recourse Factoring business in Italy for receivables due from the Italian tax authorities.

In February 2015, we received the Bank of Spain's authorisation to open a branch in Spain under the freedom of establishment regime. Accordingly, in August 2015 we launched the *Cuenta Facto* online restricted deposit account in Spain ("**Cuenta Facto**"), a similar product to Conto Facto, thus expanding into Spain the collection of savings from the public.

The following table shows the total receivables acquired by us, as well as those solely relating to our Non-Recourse Factoring business (in both cases, the total amounts and the amounts divided by country), for the years ended 31 December 2015 and 2014, respectively.

	2015		2014	
	Amount	**% of Total**	**Amount**	**% of Total**
	(€ billions, except percentages)			
	(Unaudited)		**(Unaudited)**	
Receivables				
Italy	5.8	92.0	5.1	92.7
Spain	0.5	7.9	0.3	5.5
Portugal	0.05	0.8	0.03	0.5
Total	**6.3**	**100.0**	**5.5**	**100.0**
Only Non-Recourse Factoring Receivables				
Italy	2.5	39.7	2.2	40.0
Spain	0.4	6.3	0.3	5.5
Portugal	0.05	0.8	0.03	0.5
Total	**3.0**	**47.6**	**2.5**	**45.5**

Source: Internal management data (unaudited).

The following table shows our total collections as well as those solely relating to our Non-Recourse Factoring business (in both cases, the total amounts and the amounts divided by country), as of 31 December 2015 and 2014, respectively.

	2015		2014	
	Amount	% of Total	Amount	% of Total
	(€ billions, except percentages)			
	(Unaudited)		(Unaudited)	
Total Collections				
Italy	4.9	90.9	5.1	98.0
Spain	0.5	9.1	0.1	1.9
Portugal	0.05	0.9	0.002	0.04
Total	**5.5**	**100.0**	**5.2**	**100.0**
Only Non-Recourse Factoring Collections				
Italy	2.0	36.4	2.1	38.5
Spain	0.5	9.1	0.1	1.9
Portugal	0.05	0.9	0.002	0.04
Total	**2.5**	**45.5**	**2.2**	**42.3**

Source: Internal management data (unaudited).

Our Key Competitive Strengths

We believe that our competitive strengths lie in the following key factors:

Stable markets with room for expansion

The total public administration expenditure on goods and services in 2015 was €133 billion in Italy (approximately 8.1% of GDP), €56 billion in Spain (5.2% of GDP) and €11 billion in Portugal (5.9% of GDP)[4], making a total of approximately €200 billion. We expect public expenditure in Italy, Spain and Portugal to remain stable in the future.

The markets in which we operate with respect to recourse and non-recourse factoring have a penetration index (meaning the percentage of the total public administration expenditure which is purchased by factoring companies) of 20% of the total in Italy (12% with reference to non-recourse factoring only) and 16% in Spain[5]. Therefore, market players specialising in factoring involving public administration expenditure can take advantage by developing new business with potential customers which do not currently use factoring and by managing and/or purchasing greater volumes of receivables from existing customers.

Historically, there have been payment delays by the public administration mainly due to (i) the structural division between entities responsible for expenditure and those responsible for the collection and distribution of funds; (ii) financial restrictions imposed on the indebtedness of public sector entities; (iii) bureaucratic difficulties in connection with the management of the passive invoicing cycle, lack of financial resources and operational discrepancies within the public sector (in Italy, Spain and Portugal these discrepancies are evident not only at local level, but also between different types of public entities). Therefore, the knowledge we have acquired of the structural characteristics of the public administration allows us to carry on our factoring business in a profitable manner.

[4] *Source*: For Italy, the Ministry of Economy and Finance; for Spain, the *Ministerio de Sanidad, Servicios Sociales e Igualdad*; and, for Portugal, the *Instituto Nacional de Estatistica Portugal.*

[5] *Source*: For Italy, Assifact, *Documento Economia e Finanza 2015* approved by the Italian Government on 10 April 2015 ("**DEF 2015**") (which includes the long-term economic targets of the Italian Government) and company accounts; for Spain, FAE, and *Actualizacion del Programa de Estabilidad 2015-2018* approved by the Spanish Government on 30 April 2015 (which includes economic targets and updated forecasts of the Spanish Government for the period 2015-2018).

Since 2000, the public administration receivables sector has been regulated by a stable and harmonised regulatory framework at the European level (Directive 2000/35/EC), amended in 2011 through the introduction of the European regulation on combating late payment in commercial transactions between companies or between companies and public administrations (Directive 2011/7/EU), which establishes principles and methods for the calculation of late payment interest.

Leadership in Italy, Spain and Portugal

In Italy we hold a leadership position amongst specialist market players (with a market share of approximately 21.3% as of 31 December 2015 in respect of the purchase of non-recourse receivables owed by public administration entities) and, similarly, in Spain we are leaders amongst specialist market players in purchase of receivables from suppliers of public administration entities and in Portugal in purchase of receivables from suppliers of the national healthcare system [6].

We benefit from having over thirty years of experience in Italy and being able to offer a broad range of services in the markets in which we operate, as well as from having an efficient IT platform which is fully integrated with the platforms of our key clients and debtors. This allows us to position ourselves as a partner in the management and disposal of receivables due from the public sector. We also have well-established relationships with our main counterparties (181 clients and 5,956 debtors in Italy, Spain and Portugal as of 31 December 2015), including the principal suppliers of the national healthcare systems.

Our leadership position in the factoring market is also supported by the fact that, traditionally, we have mainly worked for and alongside multinational groups and large domestic companies. In addition, many of these companies outsource all Credit Collection Management activities to us.

Experienced management team able to implement a growth strategy successfully

Our management team has over ten years of experience and an extensive knowledge of Credit Collection Management and Non-Recourse Factoring of receivables owed to Suppliers in Italy.

Following our transformation into a bank, we increased growth rates in terms of volumes and profitability and, in particular, we recorded an increase in net profit from €48.9 million in 2013 to €68.8 million in 2015.

We have pursued a growth and diversification strategy in the various public administration segments in Italy, Spain and Portugal, thanks to the knowledge we have acquired from working with debtors of the public administration, our efficient platform and cross-selling opportunities.

To support our growth strategy, in 2014 we strengthened our sales organisation and we also used indirect distribution channels by entering into agreements with other financial institutions (15 banks as of the end of 2015, including UBI Banca Group), brokers, other factors, insurance and reinsurance companies (including Coface Group) or trade associations, and new distribution agreements with third parties.

In order to pursue our growth strategy in the European market, on 8 January 2016 we launched the Magellan Tender Offer (as defined below) which was completed in June 2016. Magellan is the parent company of a group of leading non-banking operators in the field of financial services for the healthcare industry and local administration entities in Poland. Magellan has replicated its business model in the Czech Republic, Slovakia and Spain and has achieved increased business volumes in

[6] *Source*: For Italy, elaboration of Assifact data and annual reports of direct competitors; for Spain, analysis based on FAE data and on the annual report of the company IOS Finance 2014 E.F.C., S.A., which is the only direct competitor on the Spanish market among specialist and independent market players; for Portugal, the Issuer believes it is market leader as it is the only specialist operator, on the basis of an analysis of other companies' websites and annual reports of Portuguese members of Factors Chain International.

recent years. See "— *Acquisition of Magellan — Magellan Group activity*" and "— *Recent Developments — Magellan Acquisition"*.

Solid business model based on high profit margins, efficient operations and significant investments

Since 2013 we have recorded high profit margins and increasing net interest due to: (i) our leadership position in the markets in which we operate; (ii) our ability to assess and predict the collection time of purchased receivables and late payment interest; and (iii) the decrease in the cost of funding.

Notwithstanding the significant investments we have made for our growth, our operational structure remains efficient thanks to (i) limited fixed costs and (ii) a significant variable component linked to our performance in respect of employees' compensation. Our operational structure is also based on a specialised and efficient IT platform through which we manage our receivables. We have developed internally, and integrated with systems under user licences, an *ad hoc* IT system which gives us a competitive advantage in terms of (i) speed and efficiency of our activities and (ii) integration with information systems of creditors (or assignors) and debtors.

During the last three years we have made significant investments in fixed and intangible assets, totalling €6.3 million, to support our internal growth. The number of our employees increased from 113 at the end of 2013 to 188 at the end of 2015, and in particular we increased our sales force from 3 (2013) to 12 (2015). Although such investments resulted in an increase in our operational costs aimed at allowing our business to grow further in the future, we have maintained a high operational efficiency with a cost/income ratio of 33.6% for the year ended 31 December 2015.

Diversified funding base and assets characterised by low complexity and risk profile

We have demonstrated an ability to maintain adequate and high-quality funding resources in all market cycles, partly due to our continuous pursuit of an asset and liability management strategy designed to ensure appropriate liquidity levels. Our limited risk profile combined with our high and stable profitability and the relationships we have established with the Italian and international banking systems have allowed us continuous access to lines of credit. We have also demonstrated the efficiency of our funding management through our ability to guarantee adequate lines of credit even during recent financial crisis periods in Italy.

After obtaining a banking licence in 2013 and implementing certain actions in the course of 2014 and 2015, we were able to diversify and expand our funding resources (including through the launch of Conto Facto and Cuenta Facto) and to reduce the cost of funding, significantly from the second half of 2014, and expand the purchase of receivables in the context of our Non-Recourse Factoring business.

Assets characterised by low complexity and risk profile

The majority of our assets consist of receivables purchased in the context of our Non-Recourse Factoring business and government bonds purchased to optimise funding costs and manage liquidity. The duration of our receivables is shorter than the current duration of our sources of funding used in connection with such receivables.

The risk weighting applicable to receivables is (i) 0% for receivables owed by the central governments; (ii) 20% for receivables owed by local government entities (municipalities and provinces); (iii) 50% for receivables owed by other public entities in Italy (20% and 100% for other public entities in Spain and Portugal, respectively); (iv) 50% for receivables owed by ASLs and AOs (20% for Spanish Public Healthcare Debtors and 100% for SPAs and EPEs); and (v) 100% for receivables owed by private debtors.

As of 31 December 2015 and 2014, our total impaired receivables were, respectively, 2.4% and 0.8% of the total receivables purchased. Of these, our non performing receivables were 0.1 % and 0.2 % respectively.

Solid capital structure

Our capital ratios are significantly higher than the minimum levels required by applicable laws and regulations and, at the end of 2015, were among the highest in Europe and Italy. As of 31 December 2015, the Banca Farmafactoring "Banking Group" ("*gruppo bancario*", as defined in article 64 of Italian Legislative Decree No. 385 of 1 September 1993, as amended (the "**Consolidated Banking Law**"), including the Issuer and Farmafactoring España) recorded a Common Equity Tier 1 Ratio and a Total Capital Ratio each equal to 24.3%, without us having raised any funding via Additional Tier 1 or Tier 2 bond issues.

As at the date of this Prospectus, our capital ratios allow us to comply with the additional capital requirements imposed on us by the regulatory authority in accordance with the EBA guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP).

At 31 December 2014 and 2015, our financial leverage[7] was equal to 16.2 and 12.7, respectively. Furthermore, we comply with applicable regulations on capital and financial leverage.

The capital ratio and the leverage ratio were calculated for the year ended 31 December 2015, therefore they do not take into account the Magellan Acquisition and the impact of Magellan on the Group.

Significant business growth characterised by higher efficiency in allocation of capital

In the last three years, we have pursued high growth in purchased receivables ("**Outstanding Receivables**") in business segments characterised by a level of regulatory capital absorption which is lower than that which commonly applies to business segments (such as the healthcare system) on which we had previously focused.

As a result of the change in the composition of the type of debtors in relation to our Outstanding Receivables, the concentration of risk-weighted assets, defined as the ratio between risk-weighted assets and receivables due from customers, decreased from 61% in 2014 to 54% at the end of 2015.

Our Business Strategies

We seek to operate our business by implementing the following strategies:

Consolidation of market position and further expansion towards public administration and private entities in the Italian healthcare sector

We intend to increase our market share in Italy in the Credit Collection Management and Non-Recourse Factoring sectors by: (i) consolidating our position of leadership amongst specialist market players in the healthcare sector by increasing client loyalty from further improvement and customisation of our services; (ii) maintaining a central role in providing specialist services in the management and sale of receivables for large customers; (iii) expanding our activities towards public administration and private entities (including religious hospitals) operating in the healthcare sector; (iv) increasing the diversification of our clients and the types of receivables purchased, also focusing our activities on the purchase of receivables from the Italian tax authorities; and (v) continuing to invest in the IT infrastructure of both hardware and software systems, which represents a competitive advantage for our business.

[7] Ratio between total assets and equity (net of the profit for the year).

Further growth in the Spanish and Portuguese markets

We intend to pursue growth opportunities in the Iberian peninsula by taking advantage of our experience and cross-selling opportunities deriving from our client base, which includes multinational companies. We seek to increase our activities in Spain and Portugal, where the markets are structurally similar to Italy with regard to the public administration's payment trends and public expenditure on healthcare. Our aim is to achieve volumes of receivables in these markets which are consistent with those achieved in Italy, especially in the segment relating to receivables due from national healthcare systems, and to continue to increase our business with the public administration in Spain (including publicly owned companies) and to generate new business with the public administration in Portugal.

Expansion into new European markets

We continue to assess investment opportunities for growth, particularly in European markets which have similar characteristics (particularly with respect to the regulatory and legislative framework and payment patterns) to those in which we already operate, so that we can replicate or strengthen our business model. In the context of our expansion strategy in the European markets, we launched and completed the Magellan Tender Offer to acquire control of one of the leading operators in the field of financial services for the healthcare industry in Poland, the Czech Republic and Slovakia.

Maintenance of a high quality assets and strong capital position

We intend to maintain high capital ratios in order to cover the risk relating to our Non-Recourse Factoring activities in Italy and Spain and support the growth strategies described above. In particular, we intend to keep our Total Capital Ratio at or above 15%, on the basis of the current asset weighting criteria, and to continue to undertake a conservative risk management strategy and maintain high quality assets.

Constant optimisation of our funding resources in terms of cost, availability and diversification

We intend to continue to improve our funding structure to service our Non-Recourse Factoring business through diversification of our funding resources, a reduction of costs and an increase in available funding. We intend to increase the online collection of savings from retail and corporate clients by strengthening such activities, already introduced in Italy with the launch of Conto Facto and in Spain with the launch of Cuenta Facto, including in new markets such as Germany. We also intend to continue to raise funding in the debt capital markets and through ECB funding and other interbank channels to which we have had access as a result of obtaining a banking licence. See *"— Recent Developments — Launch of Cuenta Facto in Germany*".

Expansion and diversification of distribution channels

We intend to continue the strategy launched in 2014 and implemented in 2015 consisting of the diversification and expansion of distribution channels in Italy and Spain, which is aimed at acquiring new clients by strengthening our direct sales network and collaborating with other financial intermediaries, insurers, reinsurers and/or brokers.

Our History and Development

The Issuer was incorporated as a joint stock company on 22 July 1985 under the name of "Farmafactoring S.p.A." by Confarma (a consortium of pharmaceutical companies subsequently converted into a joint stock company named Confarma S.p.A. ("**Confarma**") in 1998, which at that time held 60% of the Issuer's share capital) and other minority shareholders, namely B.N.L. Holding S.p.A. ("**BNL**"), which owned a 30% stake, and International Factors Italia S.p.A. ("**Ifitalia**"), which held the remaining 10%.

In December 2006 and January 2007 the private equity fund Apax Europe VI, managed by the Apax Partners group, became our indirect controlling shareholder through a newly incorporated company, FF Holding S.p.A. ("**FFH**"), controlled by Farma Holding S.à r.l. ("**Farma Holding**"). At the time of the acquisition Cofarma held 60% of the Issuer's share capital and the minority shareholders were Ifitalia, Finanziaria Banca Agricola Mantovana S.p.A. and Banca di Roma S.p.A., respectively holding stakes of 19%, 11% and 10%.

In December 2009, we incorporated, and became the sole shareholder of, Farmafactoring España S.L., which started operations in 2011 and in July of the same year was transformed into Farmafactoring España S.A.

In July 2013, we transformed into a bank after obtaining from the Bank of Italy a licence to carry on banking activities and we changed our name to Banca Farmafactoring S.p.A.

In 2014, we started to provide factoring services in Portugal, launched our Conto Facto online deposit account in Italy and applied to the Bank of Italy for an authorisation to open a branch in Spain in order to introduce an online deposit account in the Spanish market.

In October 2014, FFH was merged into the Issuer. The merger was completed on 14 October 2014 but with effect from January 2014 for accounting purposes. As a result of the merger, the shareholders of FFH became our shareholders.

In April 2015, the funds advised by Apax Partners agreed to sell their stake in the Issuer to an affiliate of Centerbridge Partners L.P. The transaction was finalised in November 2015 when 94.26% of the share capital of the Issuer was transferred by Farma Holding to BFF Luxembourg S.à r.l. ("**BFF Luxembourg**"), indirectly controlled by the private equity fund Centerbridge Capital Partners III (PEI) L.P.

In December 2015 we purchased from TMF Poland sp. z.o.o. 100% of the share capital of Mediona for the purposes of launching the Magellan Tender Offer.

In June 2016, we launched our Cuenta Facto online deposit account in Germany.

The Issuer is incorporated and operates under the laws of Italy, and is registered with the Milan Chamber of Commerce under registration number 07960110158, with its registered office at Via Domenichino, 5, 20149 Milan, Italy. The Issuer is also on the register of banks (*albo delle banche*) held by the Bank of Italy under registration number 5751 and on the register of banking groups (*registro dei gruppi bancari*) under registration number 3435. The Issuer's by-laws specify that the period of the Issuer's duration expires on 31 December 2100 and may be extended at an extraordinary meeting of the shareholders. The telephone number of the Issuers' registered office is +39 02 499 051.

Shareholders and Share Capital

Shareholders

As at 31 December 2015, the Issuer had an authorised share capital of €130,900,000 entirely issued and paid up, represented by 1,700,000 ordinary shares of €77.00 each. Since 31 December 2015, there has been no change to the Issuer's share capital[8]. BFF Luxembourg holds a majority shareholding in the Issuer, representing 94.26% of its share capital. We are not subject to direction, management and control functions by BFF Luxembourg pursuant to article 2497 of the Italian Civil Code.

[8] The Issuer has approved, but not yet implemented, a plan to grant 1,074 newly issued shares without voting rights to its employees. Following the implementation of the plan, the share capital of the Issuer will be increased by €82,698 to €130,982,698 through conversion of reserves.

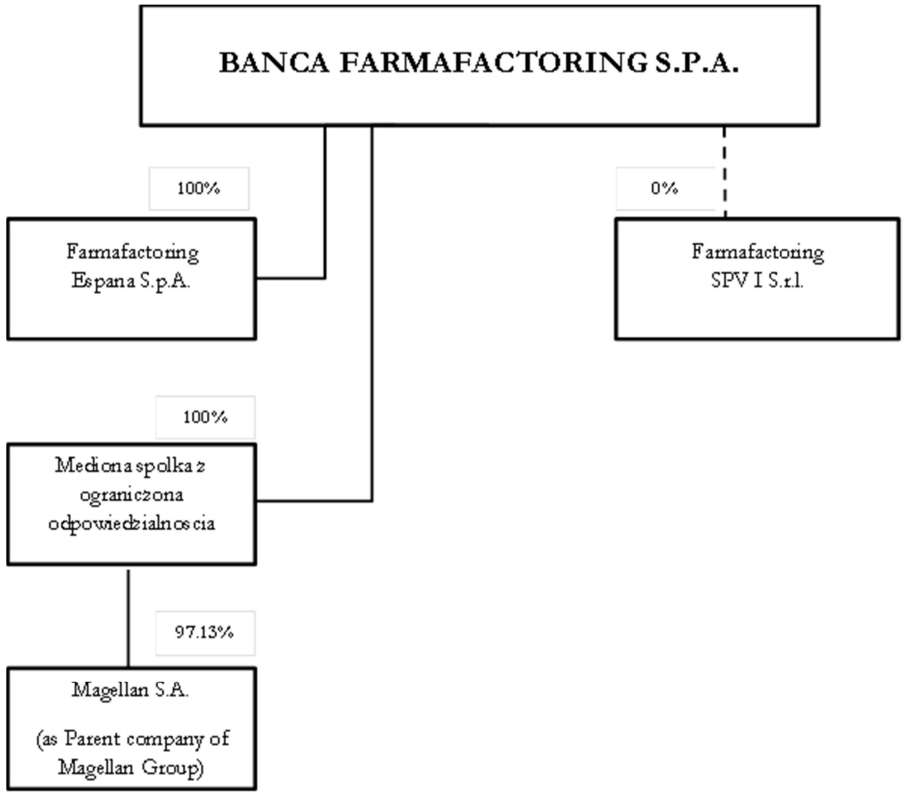
For the sole purposes of prudential supervision reporting under Regulation (EU) No. 575/2013 (Capital Requirements Regulation ("**CRR**")), our parent company BFF Luxembourg and its parent company BFF Lux Holdings S.a. r.l. ("**BFF Lux Holding**") must be consolidated into our financial statements with effect from the year ended 31 December 2015, even if these entities do not form part of the Group.

Share Capital

The table below sets out the shareholders of the Issuer, as of the date of this Prospectus, including each shareholder's approximate percentage shareholding:

Name	Percentage of ordinary shares	Percentage of voting share capital
BFF Luxembourg	94.26	94.26
Bracco S.p.A.	3.28	3.28
Mediolanum Farmaceutici S.p.A.	1.21	1.21
L. Molteni & C. dei Fratelli Alitti – Società di Esercizio S.p.A.	0.85	0.85
Unione Fiduciaria S.p.A.	0.41	0.41
Total	**100.00**	**100.00**

Group Structure and Subsidiaries



As of the date of this Prospectus, we are the parent company of the following companies:

Company	Place of incorporation	Type of Company	Shareholding
Farmafactoring España S.A.	Spain	Operating company	100%
Magellan S.A.[(1)]	Poland	Operating company	97.13%
Farmafactoring SPV I S.r.l.	Italy	Securitisation vehicle	0%[(2)]

(1) Company held by the Issuer through the vehicle Mediona spòlka z ograniczona odpowiedzialnoscia which is wholly owned by the Issuer.

(2) Required to be consolidated under IFRS on the basis that the Issuer exercises substantive control over it.

Business Segments

Our clients are primarily large companies, including international and large domestic companies that provide their products and/or services in Italy, Spain and Portugal to national healthcare service authorities ("**Public Healthcare Debtors**"), public administration entities ("**Public Administration Debtors**") and private entities (including religious organisations) active in the healthcare sector ("**Other Debtors**" and, together with Public Healthcare Debtors and Public Administration Debtors, "**Debtors**").

We have historically provided services to clients active in the medical sector and the majority of our clients are long-standing: as of 31 December 2015, our top 10 clients had been our clients for more than sixteen years (more than seven years with reference to our Non-Recourse Factoring business) and accounted for approximately 47% of our total receivables and 48% of receivables relating to our Non-Recourse factoring business[9].

In 2014, in the context of our Credit Collection Management and Non-Recourse Factoring activities, we managed almost 3 million accounting documents allowing clients to monitor directly the progress of the invoices held by us until collection.

9 *Source*: In both cases, internal management data (unaudited).

The following table provides a summary of the main characteristics of our Credit Collection Management and Non-Recourse Factoring activities.

	Credit Collection Management	Non-Recourse Factoring
Activity	Management of the process of recovery and collection of receivables due to Suppliers, including the management of administrative issues arising in the process of collection, debt collection actions, both in court and out of court, and of other ancillary services including electronic invoicing and credit certification	Outright purchase from Suppliers of the principal amount and ancillary components (including late payment interest and other ancillary income) of receivables, mainly due from debtors of the national healthcare system and/or public administration agencies (including tax receivables from the Italian tax authorities), acquiring full ownership thereof, as well as the risk of non-payment. The receivables are generally overdue and already bear accrued late payment interest
Revenues	Our income primarily derives from: (i) credit loading commission and (ii) credit collection commission	Our income primarily derives from: (i) fixed commission and (ii) late payment interest
Credit Risk	Non-payment of commission	Non-collection of principal amount and/or ancillary income
Costs	The client bears all management costs (including costs for external legal consultants which are invoiced separately)	We bear all management costs
2015 Receivables	€6.3 billion	€3.0 billion

Credit Collection Management

Credit Collection Management services in Italy and Spain are related to the difficulties and timescales of our clients' collection processes regarding invoices issued to their Debtors. In performing all the administrative and legal activities needed to collect receivables, the service offered by us allows clients to reduce their internal credit management and recovery costs. In particular: (i) the efficiency of our IT platform allows us to interact efficiently with both clients and Debtors and (ii) the specific experience that professionals working for us have gained in this field allows clients to benefit from better performance in terms of timing of payment.

Generally, our relationship with clients is based on a management contract which requires clients to appoint us to recover receivables and delegate powers to us, meaning that we are legally authorised to act on their behalf and act as a proxy for the collection of receivables under management. Clients maintain the credit risk and the risk of late payment by Debtors, since we only manage and do not acquire receivables, and we are therefore exposed only to the risk of non-payment of commission by the client. We are not required to fund this business, since we do not purchase these receivables.

The revenue generated by our Credit Collection Management activities primarily derives from the management commission paid by clients. Management commission generally consists of a fee paid at the time of acceptance of the receivables and an additional commission paid at the time of collection as recognition of the successful outcome of the management activity.

Our Credit Collection Management activity is strategically important, since clients that outsource to us the management of their receivables often turn to us if they intend to sell such receivables. Therefore we are often also able to generate Non-Recourse Factoring business with those customers.

The following table shows receivables managed (and not subsequently acquired) and commission income that we have generated through our Credit Collection Management activities for the years ended 31 December 2015 and 2014, respectively.

	2015	2014
	(€ millions)	
Receivables managed (Credit Collection Management)	**3,301**[(1)]	**2,949**[(1)]
Commission income	8.4	9.4

(1) Internal management data (unaudited).

Non-Recourse Factoring

The purchase of Non-Recourse Factoring receivables allows our clients to deconsolidate the transferred receivables in accordance with IFRS and US GAAP. The receivables are transferred from the relevant client's financial statements to our financial statements and we assume their full ownership, including any connected cost and benefit and, in particular, any late payment interest. In the event that the receivable is non-existent (for instance, if it has already been paid by the debtor), we have the right to terminate the transfer and the client must immediately repurchase the receivables and, in most cases, return the face value of the receivable plus interest.

The purchase price is normally equal to the nominal value of the receivable net of a fixed commission, calculated on the basis of a prior assessment of, among other things, the relevant credit risk (including an assessment of the assignor, the Debtor and the timing for payment).

The purchase price of each receivable largely depends on the expected payment date. Therefore, we carefully monitor the "days sales outstanding" ("**DSOs**") of each Debtor and input data on a daily basis into our historical database which contains the payment times of all invoices managed during the course of our activities (on behalf of third parties and on our own behalf). This database is used to estimate the collection times of receivables recorded in our financial statements (in order to manage our liquidity) and to determine the price of new receivables during the purchase phase in our Non-Recourse Factoring activities.

The information obtained from our database is also used for liquidity management purposes and supports our internal policies which set out in detail our risk management policies and the requirements for subscribing for receivables. Once purchased by the Issuer or, as applicable, Farmafactoring España, the purchased receivables are managed by us on our own behalf for their entire remaining life cycle, until fully collected.

Our revenues from our Non-Recourse Factoring activities mainly derive from the following components of interest income:

- *Fixed commissions ("**Maturity Commissions**")*. We deduct Maturity Commission from the purchase price as determined on a case-by-case basis at our discretion at the time of purchase on the basis of, among other things: (i) past payment trends of Debtors owing the transferred receivables; (ii) the quality of the portfolio transferred by the client; (iii) financial expenses

(current and future) that we must incur to finance the purchase of receivables; and (iv) the capital absorbed by the receivable over its lifetime; and

- *Late payment interest*. Debtors pay late payment interest at the ECB base rate pursuant to Directive 2011/7/EU, as applied in the various jurisdictions in which we operate, which sets out the late payment interest rate applicable in the event of late payment in commercial transactions between companies or between companies and the public administration. Interest is generally collected once the nominal value of the receivable has been repaid. However, the interest amount we collect may be lower than the late payment interest accrued. Therefore, in our financial statements we estimate the recoverability percentage of late payment interest to be 40% of its nominal value until collection occurs.

The recognition of Maturity Commission and late payment interest in the consolidated income statement is made through the application of the amortised cost method for measuring non-recourse receivables purchased, in accordance with IAS 39.

Beginning with the financial statements for the year ended 31 December 2014 we amended our method to estimate the percentage of late payment interest that will be recovered and the timing for collection in the performance of our Non-Recourse Factoring business . According to the new approach adopted, we estimate the recoverability percentage of late payment interest to be equal to 40% of its nominal value at the estimated collection date (which is conservatively fixed at 1,800 days). Therefore, late payment interest recorded in our income statement is just a part of all late payment interest accrued and legally due to us. In the event of higher recoverability percentages (which has occurred in the past), we record in our financial statements the difference between the interest amount originally recorded and the interest amount collected as additional interest income at the time of collection.

The amount of late payment interest accrued and legally due to us, but not yet collected, is recorded in the late payment interest fund, which at Group level was €427 million for the year ended 31 December 2014 and €460 million for the year ended 31 December 2015. A part of the late payment interest fund, amounting to €151 million as of 31 December 2015, has already been accounted for in our income statements for the years ended 31 December 2015 and 2014, but not yet collected.

The table below shows the volume of purchased non-recourse receivables and interest income generated annually by us in the context of our Non-Recourse Factoring activities as at and for the years ended 31 December 2015 and 2014, respectively.

	2015	2014
	(€ millions)	
Receivables (Non-Recourse Purchases)	**2,986**[1]	**2,502**[1]
Interest income	154.5	246.1

(1) Internal management data (unaudited).

The table below shows the total amount of our Outstanding Receivables in the context of our Non-Recourse Factoring activities as at and for the years ended 31 December 2015 and 2014, respectively, divided by country.

	2015		2014	
	Amount	% of Total	Amount	% of Total
	(€ millions, except percentages)			
Outstanding Non-Recourse Factoring Receivables	**(Unaudited)**		**(Unaudited)**	
Italy	1,797	89.5	1,271	82.1
Spain	184	9.1	251	16.2
Portugal	28	1.4	27	1.7
Total	**2,009**	**100.0**	**1,549**	**100.0**

Source: Internal management data (unaudited).

Collection of online savings (Conto Facto and Cuenta Facto)

After obtaining a banking licence in 2013, in order to further diversify our sources of funding, in September 2014 we launched the online deposit account Conto Facto on the Italian market. In August 2015, we also started deposit taking in Spain through our Spanish branch, by launching the online deposit account named Cuenta Facto. We perform the collection of savings for both retail and corporate customers in Italy and Spain through these online fixed-rate term deposit accounts. In June 2016 we launched the Cuenta Facto online deposit account also in Germany. See *"— Recent Developments — Launch of Cuenta Facto in Germany".*

Conto Facto and Cuenta Facto allow us to: (i) improve the funding of our core business through a further diversification of our funding resources; (ii) optimise the structure and cost of the funding; (iii) simplify operating costs, as a result of the reduced activity compared to other forms of direct deposits, such as current accounts; (iv) achieve greater liquidity control and improvement of liquidity indicators; and (v) reduce interest rate risk as Conto Facto and Cuenta Facto are fixed rate funding sources, and, consequently, reduce the absorption of capital and/or the cost of derivatives hedging connected with our receivables portfolio.

Conto Facto and Cuenta Facto allow clients to choose the term of their fixed term account, from a minimum of 3 to a maximum of 36 months for Italy and 60 months for Spain (36 months for Spanish corporate customers). Interest is earned on the amounts paid in, based on interest rates which vary according to the duration of the preselected term.

As of 31 December 2015, there were a total of 6,355 Conto Facto and Cuenta Facto accounts held at the Issuer level, which represented deposits with a book value of €416.7 million in total.

Acquisition of Magellan

On 8 January 2016, Mediona, a special purpose vehicle purchased by the Issuer, announced to the market and the Polish Financial Market Supervisory Authority its intention to launch a public tender offer for the maximum aggregate number of shares representing 100% of the share capital of Magellan S.A. ("**Magellan**") (i.e. 6,720,037 shares), aimed at delisting the company (the "**Magellan Tender Offer**"). In June 2016 the Magellan Tender Offer was completed and Mediona acquired a total of 6,526,941 shares of Magellan, corresponding to 97.13% of its share capital (net of Magellan own shares), at a price of PLN 443,831,988 (approximately €101 million) or PLN 68.0 per share.

Magellan Group activity

Magellan is a Polish joint stock company operating in the financial services market for the health sector and public sector and has been listed on the Warsaw Stock Exchange since 2007, with its registered office in Lodz (Poland) and share capital of PLN 2,016,011.10, consisting of 6,720,037 non-preferred shares with a par value of PLN 0.30 each. Magellan is a non-bank financial institution and, accordingly, is not subject to the Polish regulations applicable to banks.

Magellan is the parent company of a group of subsidiaries incorporated in Poland, the Czech Republic and Slovakia (the "**Magellan Group**"). The Magellan Group operates primarily in three sectors: (i) financing of suppliers' operating capital, (ii) financing of current and future receivables and (iii) financing of investments in the public and health sectors. In particular, Magellan is a leading operator in the market for the supply of financial services to companies operating in the health sector and to the suppliers of the public administration in Poland[10].

Magellan has a branch in Spain with offices in Barcelona, which was incorporated towards the end of 2014 to expand its activities into Western Europe. Through its Spanish branch, Magellan carries out non-recourse factoring of receivables due from the Spanish public administration and credit management and lends support in the event of insolvency. Furthermore, Magellan's Spanish branch grants financing for the purchase of medical equipment. In July 2015, Magellan's Spanish branch completed its first non-recourse factoring transaction.

As at the date of this Prospectus, the Magellan Group consists of the following companies (in addition to Magellan):

- *MED Finance S.A.*, a Polish limited company wholly owned by Magellan providing public and private healthcare entities with the opportunity to acquire receivables in support of their investments and funding for the replacement and purchase of new medical equipment giving access to modern forms of financing by offering financial services for the supply of medical equipment, in particular by way of factoring, financial leasing and consumer credit;
- *Magellan Česká republika s.r.o.*, a Czech limited liability company wholly owned by Magellan, which grants Czech healthcare entities and their suppliers access to financing, in particular by providing factoring services, including the factoring of receivables, and granting loans and guarantees; and
- *Magellan Central Europe s.r.o.*, a Slovakian limited liability company wholly owned by Magellan, which partners with Slovakian healthcare entities and their suppliers by providing financial services, including the factoring of receivables, and granting loans and guarantees.

In addition, the law firm Kancelaria P. Pszczółkowski i Wspólnik Spółka Komandytowa located in Lodz (Poland), incorporated as a limited partnership, and the closed-end fund Municypalny Fundusz Inwestycyjny Zamkniety (of which Magellan owns all of the issued financial instruments), are included in the scope of consolidation of the Magellan Group.

For the year ended 31 December 2015 the Magellan Group achieved volumes of PLN 2,246 million (approximately €526.7 million), of which PLN 1,707 million as represented by net financial assets (approximately €400.3 million), compared to PLN 2,379 million (approximately €556.7 million) and PLN 1,498 million (approximately €350.6 million) in 2014. The sales revenue of the Magellan Group for the year ended 31 December 2015 amounted to PLN 161.6 million (approximately €38.6 million), compared to PLN 162.3 million (approximately €38.8 million in 2014), while its net profit amounted to PLN 43.1 million (approximately €10.3 million) compared to PLN 50.3 million (approximately €12.0

[10] *Source*: Annual reports of Magellan's direct competitors (i.e. non-banking financial institutions providing financial services to the healthcare segment and local authorities)

million) in 2014. The total assets of the Magellan Group as at 31 December 2015 amounted to PLN 1,759.8 million (approximately €412.7 million), compared to PLN 1,568.2 million (approximately €367.0 million) as at 31 December 2014, while shareholders' equity amounted to PLN 349.9 million (approximately €82.0 million), compared to PLN 321.9 million (approximately €75.3 million) at the previous year end[11].

Future plans in respect of Magellan

Following the completion of the Magellan Tender Offer, Mediona has required Magellan's shareholders who did not take up the offer to sell their shares pursuant to the squeeze-out procedure provided for under Polish law. After this, Mediona and the Issuer intend to delist Magellan and promote its development. In particular, the Issuer intends to pursue synergies with Magellan in order to expand the services offered to the Issuer's customers and to reduce Magellan's cost of funding. Through the acquisition of Magellan, the Issuer aims to continue its growth strategy by (i) exploiting cross selling opportunities, (ii) expanding its business in three fast- growing markets (Poland, Czech Republic and Slovakia) and (iii) increase its customer base.

Our Business Model

We operate according to a single organisational model in Italy, Spain and Portugal, pursuant to which our Credit Collection Management activities differ from our Non-Recourse Factoring activities by virtue of certain activities which are specific to Non-Recourse Factoring.

The value chain of our Credit Collection Management and Non-Recourse Factoring activities is composed of the following main stages:

- Business development;
- Credit loading;
- Credit risk assessment – Pricing – Purchase (these phases only apply to our Non-Recourse Factoring activities);
- Credit Portfolio Management; and
- Collection.

The following activities support the entire value chain:

- Information system; and
- Funding (only in the context of our Non-Recourse Factoring activities).

Business Development

Our business development activity targets both existing and potential new clients.

In respect of our existing clients, we initially seek to take advantage of the following cross-selling opportunities: (i) geographical, by offering clients the same services in different geographical areas where both we and our clients operate and (ii) product-related, by offering Non-Recourse Factoring services to clients who already use our Credit Collection Management services. Moreover, we develop business with existing clients by offering a range of services which are constantly updated and tailored to the specific needs of each client.

[11] *Source:* The Magellan Group's consolidated financial statements for the year ended 31 December 2015. The exchange rates used are: i) the average exchange rate for the year ended December 2015 and 2014 in relation to economic data, and ii) the exchange rate at 31 December 2015 and 2014 in relation to the financial data.

In order to acquire new clients by expanding our services into new business segments, we have strengthened our commercial structure to support such expansion (increasing our business units from three in 2013 to 12 in 2015) and in Italy and in Spain we have entered into certain distribution agreements with other financial institutions, brokers, other factors, insurers and reinsurers.

Credit Loading

At the beginning of the relationship, the client sends us the information regarding all receivables to be transferred and the related invoices are then loaded on the factoring system (the "**Factoring System**"). The Factoring System verifies the formal correctness of the documentation received, reporting any anomalies to be corrected. In this way, during the uploading into the Factoring System, we are generally able, together with the client, to verify the quality of the information and of the documents received. From the time of completion of the uploading operations, the management of the accounting ledgers and their update are carried out by the Factoring System.

Non-Recourse Factoring: Credit Risk Assessment – Pricing – Purchase

Our business model contemplates, in respect of our Non-Recourse Factoring business only, a phase that entails credit risk assessment, pricing and credit purchase activities, as described in more detail below.

Credit Risk Assessment

We assess the credit risk of Debtors as well as the credit risk of assignors in accordance with the applicable internal regulation (the "**Credit Regulation**"), which describes the technical rules and determines the organisational and control safeguards. This activity comprises the following phases, the outcome of which must be successful before we can proceed with the purchase offer:

- preliminary credit risk assessment of the potential assignor;
- selection of the eligible Debtors; and
- credit risk assessment of the portfolio.

Pricing

Following the risk assessment phase, we set the price of the receivables to be transferred to us, which we then propose to each client in the context of our Non-Recourse Factoring business. During this process, we analyse the portfolios to be acquired on the basis of (i) the assessment made by our business units responsible for assessing the quality of our clients and assigned Debtors and (ii) the payment history contained in our database.

We pay particular attention to the DSOs of each entity belonging to the national healthcare services and public administration in order to correctly determine the time of collection and value of the acquired receivables. For Italian Public Healthcare Debtors, we have detailed and extensive historical data on payment delays which we have recorded in thirty years of activity in respect of each local health authority ("**ASL**") and public hospital trust ("**AO**"). With respect to receivables due from the tax authorities, we rely on due diligence activities carried out by external experts in order to estimate the timing for payment and assess their credit quality. As a result of this procedure we are able to determine the price of the receivables to be acquired through an objective and independent assessment. More specifically, the price is generally equal to the nominal value of the receivable net of our commission (which is generally fixed). If the client accepts our pricing proposal, we send them our final proposal and, if this is accepted by the client, we proceed with the purchase.

Purchase of receivables

We normally purchase non-recourse receivables at their nominal value, net of a commission determined on the basis of the pricing mechanism described above. We enter into authenticated and notarised private written agreements with our clients as required by applicable laws and regulations in relation to the transfer of assets of public debtors.

Credit Portfolio Management

We carry out credit portfolio management in respect of receivables managed on behalf of third parties as well as receivables acquired and then managed on our own behalf.

Activities with respect to our clients

These activities involve: (i) the management of the administrative aspects of the credit management process, including the disclosure provided to clients in relation to potential issues in connection with the receivable; (ii) the identification and removal of any obstacles to payment (for example, where invoices are challenged by Debtors); and (iii) discussing with clients any actions that need to be taken with respect to Debtors, including returning receivables to clients, as contractually provided in the context of our Non-Recourse Factoring business. We offer our clients tailored services such as electronic invoicing and the certification of receivables.

In Spain there is a lower demand for our Credit Collection Management services, mainly due to fewer administrative complexities compared to the Italian market. In Portugal we use an external credit management company.

Activities with respect to debtors

These activities involve:

- *Verification of receivables*. We regularly carry out the verification of receivables, which involves: (i) checking the relevant documentation; (ii) sending payment reminders; (iii) reconciling ledgers; (iv) managing any dispute regarding the documentation relating to the receivables; (v) on-site visits at the Debtors' facilities; and (vi) preparing settlement proposals and/or repayment plans.
- *Monitoring.* We aim to perform timely, efficient and constant monitoring of receivables through reports analysing such receivables in the required level of detail. The Credit Regulation requires the constant monitoring of the credit risk of each Debtor, in order to verify our maximum exposure to them and, in particular, to those deemed to be more risky.
- *Reminder*. We send reminders to Debtors in relation to the payment of principal amounts and late payment interest. The reminder is sent to Debtors through a document which is automatically generated by the Factoring System and highlights the overdue invoices for which a reminder has not yet been sent. Moreover, each year the Factoring System automatically generates for each Debtor a reminder document for all receivables not paid in the previous calendar year. In addition to these annual and intra-annual reminders, when necessary, we transmit additional *ad hoc* reminders by various means, for example by telephone, email or fax.

Collection

We carry out this activity in the context of both our Credit Collection Management and Non-Recourse Factoring businesses. In particular, we: (i) manage and constantly update the tables containing the conditions relating to our relationship with assignor clients; (ii) reconcile the collections; and (iii) resolve outstanding amounts and process credited amounts in respect of receivables on a daily basis. Collection management also entails invoicing commission and/or expenses to clients.

Information System

The IT infrastructure of our systems is a competitive advantage of our business and was designed to ensure continuity in the provision of services, operational stability and the provision of high quality services for end users, including us internally and clients and Debtors externally. Our technological architecture also supports the activities of Farmafactoring España and our activities in the Portuguese market.

Our application infrastructure relating to our factoring services (BFF and FFE) and our Conto Facto deposit account consist of proprietary or internally developed software systems for the management of factoring, third party systems acquired under user licence for the management of all activities supporting our core business and services for the management of our banking activities performed by the outsourcer CSE Consorzio Servizi Bancari Soc. Cons. a r.l. ("**CSE**").

In addition, with the launch of Cuenta Facto in Spain in August 2015, we added to the above infrastructure the integrated services provided by the outsourcer Rural Servicios Informaticos, S.C. ("**RSI**"). A front end system interacts with the services provided by RSI for the management of banking activities and, in particular, of Cuenta Facto, the supervisory reports to the Bank of Spain, anti-money laundering and the management of payments.

Funding

With regards to the entire cycle of the Non-Recourse Factoring activity, we fund the acquisition of our receivables portfolio through a combination of:

- committed or irrevocable credit facilities including: (i) bilateral bank loans issued by individual credit institutions and (ii) syndicated bank loans issued by groups of credit institutions;
- revocable credit facilities granted by credit institutions;
- structured finance transactions secured by transfers of receivables to securitisation vehicles and factoring facilities and/or collaboration agreements with factoring companies;
- capital markets, for example, through the issuance of the €300 million bond in June 2014;
- collection of savings from the public in Italy and Spain through our online deposits;
- interbank market;
- repo refinancing operations using the MTS platform guaranteed by Cassa di Compensazione e Garanzia S.p.A. and/or with the Eurosystem of the European Central Bank through A.BA.CO (*Attivi Bancari Collateralizzati*, Collateralised Bank Assets); and
- equity.

Our internal finance team ensures that our available funds are sufficient to cover the purchase of receivables through the funding resources listed above and that we maintain a balance between our sources and uses.

We use our portfolio of securities held to maturity and securities available for sale to reduce our cost of funding, using the latter also to optimise our liquidity position. In particular, since 2014, after obtaining a banking licence, we participated in open market operations with the European Central Bank and repurchase transactions on government securities held by us.

In accordance with our policies, our securities portfolio is composed of government securities exclusively issued by European Union Member States (as of 31 December 2015 it only included government bonds issued by the Republic of Italy), which must reflect specific ratings by External Credit Assessment Institutions (ECAI) recognised by the Banking Supervisory Authority. The purchase

of securities classified as HTM (held-to-maturity) is linked to our committed and unsecured funding realised through the interbank channel, bond issuance and collection of savings through our online deposits. The amount and duration of our HTM securities must not exceed the maximum amount and duration specified for each form of funding/collection to which such securities are linked, at the date of acquisition of such securities.

As of 31 December 2015, our sources of funding totalled €1,615.7 million (net of repurchase transactions with Cassa di Compensazione e Garanzia S.p.A. ("**CCG**") and European Central Bank refinancing facilities). Our credit facilities are composed of short and medium term financing agreements.

As of 31 December 2015, we had total credit lines available (including both drawn and undrawn facilities) in the amount of €2,180.7 million (net of repurchase transactions with CCG and European Central Bank refinancing facilities), of which €480.0 million was from structured finance transactions, €300.0 million from the notes issued in 2014, €874.0 million from bilateral financing agreements, €110.0 million from syndicated loans and €416.7 million from Conto Facto net deposits.

The table below shows the types of financing drawn by us as of 31 December 2015 and 2014.

	As of 31 December			
	2015		2014	
	Amount	% of Total	Amount	% of Total
Type of financing	*(€ millions, except percentages)*			
Structured finance transactions	480.0	22.0	540.0	26.1
Notes issuance	300.0	13.8	300.0	14.5
Bilateral financing agreements	874.0	40.1	480.0	23.2
Syndicated loans	110.0	5.0	522.5	25.3
Conto Facto deposits	416.7	19.1	226.3	10.9
Total[(1)]	**2,180.7**	**100.0**	**2,068.8**	**100.0**

(1) Total amount net of repo transactions with CCG and European Central Bank refinancing facilities

Asset Quality

In accordance with Bank of Italy requirements, we perform impairment testing on our receivables portfolio and classify receivables as either "performing" or "impaired". Receivables with a risk of loss are classified as impaired, while all other receivables are classified as performing (including receivables that, although past due, show no objective indication of impairment based on internal, historical or statistical information).

Impaired assets are divided into the following categories: (i) past due exposures; (ii) unlikely to pay; and (iv) non-performing exposures. The definitions of these categories are provided by the Bank of Italy and are as follows:

(i) *Past due exposures*. Receivables are defined as "past due" when they have not been paid for more than 90 days and the payor shows some objective indication of impairment (either individually or collectively). All receivables with central administrations and central banks, public sector entities and territorial entities will be considered past due when the payor has not made any payments for any receivables owed to the Group for more than 90 days.

(ii) *Unlikely to pay*. Receivables are defined as "unlikely to pay" when the payor is assessed as unlikely to repay his credit obligation in full. The classification within the "unlikely to pay" category is not necessarily related to the explicit presence of anomalies, but rather it is linked to the presence of evidence of a debtor's risk of default. The "unlikely to pay" category combines

two categories previously provided for by the Bank of Italy, namely watchlist loans and restructured loans.

(iii) *Non-performing exposures*. Receivables are defined as "non-performing" when the payor is effectively insolvent (although not yet legally insolvent) or in a similarly distressed situation, regardless of any provisions for loss set aside by the Issuer.

The tables below show our performing exposures and impaired assets deriving from Non-Recourse Factoring purchases, also as a percentage of total non-recourse receivables purchased, as of 31 December 2015 and 2014.

	As of 31 December			
	2015		2014	
	(€ millions, except percentages)			
Performing exposures	**1,880.5**	**97.6**	**1,523.4**	**99.2**
Non-performing exposures	2.5	0.1	2.9	0.2
Unlikely to pay	-	-	-	-
Past due exposures	43.2	2.2	9.8	0.6
Total impaired assets	**45.7**	**2.4**	**12.7**	**0.8**

As a result of our debtor characteristics and the geographical distribution of our receivables portfolio, high-risk concentration is reduced, as further evidenced by a relatively low asset exposure. We made a net impairment reversal for non-performing receivables in the sum of €0.02 million for the year ended 31 December 2015, compared to €0.11 million for the year ended 31 December 2014. Such provisions or reversals are assessed on a case-by-case basis considering expected recovery. We also make provisions for collective impairment tests on performing receivables. The total amount of the net provisions for both performing and non performing receivables was €1.1 million for the year ended 31 December 2015, compared to a net impairment reversal of €0.04 million for the year ended 31 December 2014.

Capital Ratios

The Bank of Italy has adopted risk-based capital ratios ("**Capital Ratios**") pursuant to EU capital adequacy and solvency directives. Italy's current requirements are similar to the requirements imposed by the international framework for capital measurement and capital standards of banking institutions of the Basel Committee on Banking Regulations and Supervisory Practices. The Capital Ratios consist of core (Tier I) and supplemental (Tier II) capital requirements relating to the Issuer's assets and certain off-balance sheet items weighted according to risks ("**Risk-Weighted Assets**").

The table below shows our Capital Ratios as of 31 December 2015, which exceed the minimum levels prescribed by the Bank of Italy.

	As of 31 December 2015
	(€ millions, except percentages)
Tier 1 capital	259.3
Tier 2 capital	-
Own Funds	259.3
Risk-weighted assets	1,065.8
Tier 1 capital ratio	24.3%
Total capital ratio	24.3%

Our Markets

We provide Credit Collection Management services in Italy and Spain and Non-Recourse Factoring services in Italy, Spain and Portugal.

Italy

In Italy, the receivables we manage as part of our Credit Collection Management business and acquire as part of our Non-Recourse Factoring business are due mostly from: (i) the Italian national healthcare system composed of: ASLs, AOs or regional authorities (the "**Regions**" and, together with ASLs and AOs, "**Italian Public Healthcare Debtors**"); (ii) the Italian public administration ("**Italian Public Administration Debtors**"); and, to a lesser extent, (iii) private entities, mostly active in the healthcare sector ("**Other Italian Debtors**").

As at 31 December 2015, the amount of receivables deriving from our Non-Recourse Factoring business, in particular those owed by Italian Public Healthcare Debtors, was affected by the introduction of the VAT split payment regulation by Law No. 190/2014 (the "**Stability Law 2015**"). According to this regulation Italian Public Administration Debtors pay directly to the tax authorities the VAT charged to them by the suppliers. Therefore, the total amount of receivables to be purchased by us, as part of our Non-Recourse Factoring business, is materially reduced. See "*Risk Factors—Risks Related to Our Industry—Recent introduction of so called "split payment" of VAT for transactions involving public bodies*".

On the Italian market, through our Non-Recourse Factoring activities we acquire receivables due from Italian Public Healthcare Debtors, Italian Public Administration Debtors, the Italian tax authorities and Other Italian Debtors. Our Non-Recourse Factoring volumes in Italy as at 31 December 2015 take into account the introduction of VAT split payment legislation.

Spain

In Spain, our Non-Recourse Factoring and Credit Collection Management activities are carried out by Farmafactoring España and our branch and mainly involve Non-Recourse Factoring and Credit Collection Management of receivables due to our clients from (i) the Spanish healthcare system (the "**Spanish Public Healthcare Debtors**"), whose ultimate debtors are the 17 autonomous regions of Spain (the "***Comunidades***") and (ii) the central, regional, local and other public administration (the "**Spanish Public Administration Debtors**"), whose ultimate debtors are the state, the Comunidades or the municipalities, as applicable. As of 31 December 2015 the receivables collected and managed by Farmafactoring España are not due from any other entities except for the debtors at (i) and (ii) above ("**Other Spanish Debtors**").

The Spanish healthcare services and public administration, similarly to Italy, are characterised by lengthy payment times, even though the administrative complexities are relatively fewer than in Italy. This allows us to replicate in Spain the Credit Collection Management and Non-Recourse Factoring activities that we perform in Italy through Farmafactoring España, which is strategically positioned as an intermediary between Spanish clients and debtors.

The Spanish market has fewer administrative complexities compared to the Italian market, mainly due to the Spanish Government's adoption of a system involving the certification of receivables due from Spanish debtors. Therefore, there is a lower demand in Spain for our Credit Collection Management services.

We carry out our Non-Recourse Factoring activities in Spain through Farmafactoring España mainly for Suppliers, who, in certain cases, are already our clients in Italy.

Portugal

Since obtaining the Bank of Italy's authorisation in April 2014, we have operated directly on the Portuguese market on a cross border basis for the Non-Recourse Factoring of receivables due to clients from the Portuguese healthcare system and, more specifically, from public hospitals ("**SPA**") and public entities operating in the healthcare sector ("**EPE**"). These authorities are funded directly by the Portuguese central government.

Our Non-Recourse Factoring activities in Portugal are managed by one of our business units, whose tasks mainly include sending payment reminders and taking legal action and which relies on the commercial network of Farmafactoring España.

Employees

The table below sets forth the average number of employees of the Issuer (excluding its subsidiaries and the Spanish branch) for the years ended 31 December 2015 and 2014.

	2015	2014
Senior Executives	11	9
Managers	51	45
Workers	104	85
Interns	2	9
Total	**168**	**148**

Since 31 December 2015, the number of the Issuer's employees has increased to 174 as at the date of this Prospectus. In addition, 18 employees are employed by Farmafactoring España and seven by the Spanish branch of the Issuer. Therefore, as at the date of this Prospectus the Group has 199 employees in total, compared to 188 as at 31 December 2015.

Legal Proceedings

We are involved in a number of legal proceedings arising in the ordinary course of our business, the majority of which involve claims made by us against counterparties. We assess the potential losses that we could incur in connection with pending legal proceedings and make provisions in application of prudential criteria. As at 31 December 2015, we did not have any provisions to cover risks and charges for litigation. As of the date of this Prospectus we are not party to any individual legal proceedings which could be expected to lead to a loss for us of more than €1 million except for the proceedings described below. Although we believe that the amount of the provisions we made to cover risks and charges for litigation is adequate, in the event that any losses resulting from legal proceedings exceed such amount, this could have a material adverse effect on our business, financial condition and results of operations.

Eurospital proceedings

In January 2009 we received a notification that Eurospital S.p.A. ("**Eurospital**"), former shareholder of Confarma, had filed a lawsuit against us and the former Chairman of the board of directors of Confarma. Eurospital, which sold its shareholding in Confarma to DB Zwirn & Co. in September 2006, claims in its lawsuit compensation for damages from our alleged fraudulent conduct as we did not inform Eurospital of the ongoing bidding process for the acquisition of Confarma. In October 2011 the Court of Milan ordered the defendants to pay to Eurospital compensation for damages of approximately €4.1 million. In May 2014 the Court of Appeal of Milan overturned the first instance decision and rejected Eurospital's claim for damages. In July 2014 Eurospital appealed against this judgment to the Supreme Court. As of the date of this Prospectus the judgment of the Supreme Court is still pending.

Corporate Governance

The organisational documents of the Issuer conform to the provisions contained in the Italian Civil Code and other special regulations regarding banking entities. The Issuer is structured according to the traditional Italian business corporate governance model with (i) a board of directors (the "**Board of Directors**") responsible for overseeing business management and (ii) a board of statutory auditors (the "**Board of Statutory Auditors**") responsible for supervising compliance with laws and statutes, and monitoring the adequacy and the proper functioning of the organisational structure, the Issuer's internal controls and the Issuer's accounting and administrative system.

Pursuant to Legislative Decree No. 231 of 8 June 2001, as amended ("**Decree 231**", which provides for the direct liability of legal entities, companies and associations for certain crimes committed by their representatives and encourages companies to adopt corporate governance structures and risk prevention systems to stop managers, executives, employees and external collaborators from committing crimes), the Board of Directors appoints an independent supervisory board ("***Organismo di Vigilanza"***) charged with the task of (i) monitoring compliance with Decree 231 and (ii) proposing necessary updates to the organisational model of the Issuer. In order to supervise the actions of top management adequately, the *Organismo di Vigilanza* must remain fully autonomous.

Board of Directors

The members of the Board of Directors are elected for three-year terms (unless elected upon the resignation or removal of another member) by majority vote of the shareholders at annual general shareholders' meetings, and may be re-elected. Pursuant to the Consolidated Banking Law, the members of the Board of Directors are required to abide by specific professional, ethical and independency requirements.

The following table sets forth the names, positions and principal activities of the current members of the Board of Directors. Each member's term will expire at the annual shareholders' meeting called for the approval of the Issuer's annual financial statements as at and for the year ending 31 December 2017.

Name	Position	Principal Activities Outside the Issuer
Salvatore Messina	Chairman	Chairman and Director of Diners Club Italia S.p.A. Director of Fondazione Farmafactoring
Massimiliano Belingheri	Chief Executive Officer	Chairman and CEO of Farmafactoring España Director of Mediona
Luigi Sbrozzi	Vice Chairman	Director of BFF Luxembourg S.à.r.l. Director of BFF Lux Holdings S.à.r.l. Managing Director of Centerbridge Partners L.P.
Marco Rabuffi	Director	N/A
Gabriele Michaela Aumann Schindler	Director	N/A
Federico Fornari Luswergh	Director	Director of Merck Serono S.p.A. Director of Istituto di Ricerche Biomediche Antoine Marxer RBM S.p.A. CEO of Merck S.p.A. Director of Allergopharma S.p.A. Director of Fonchim
Mark John Arnold	Director	Executive in residence for Centerbridge Partners L.P.

Name	Position	Principal Activities Outside the Issuer
Giampaolo Zambelletti Rossi	Director	Chairman and Director of RCS Investimenti S.p.A.. Vice Chairman and Director of Unidad Editorial S.A. Madrid Director of Cellnex S.A. Barcelona
Ben Carlton Langworthy	Director	Director of BFF Lux Holdings S.à.r.l. Director of Bonhom S.a.S. Director of Aktua Soluciones Financieras S.L. Director of Aktua Soluciones Financieras S.L. Holdings Director of Resort Finance America LLC Director of LV Tower Holdings, LLC Director of LV Tower 52 Laonco, LLC Director of GTH LLC Director of Reachford Limited Director of Crestside Project Management Limited Director of Gembira Limited Director of Broadcrest Limited Director of Circleside Limited Senior Managing Director of Centerbridge Partners L.P.
Elisabetta Oliveri	Director	CEO of Fabbri Vignola S.p.A. CEO of Gruppo Fabbri Vignola S.p.A. Sole Director of Gruppo Fabbri (Switzerland) S.A. Sole Director of Ser Man S.r.l. Director of Gruppo Editoriale l'Espresso S.p.A. Director of Snam S.p.A. Director of Automac UK Director of Eutelsat S.A.

The business address of each of the members of the Board of Directors is Via Domenichino, 5, Milan, Italy.

Board of Statutory Auditors

Each member of the Board of Statutory Auditors is appointed by the shareholders and the board is composed of three regular auditors, one of whom is appointed as chairman, and two alternate auditors. Members of the Board of Statutory Auditors are elected by the shareholders for a term of three years until the date of the shareholders' meeting called for the approval of the financial statements relating to the third year of such appointment.

The Board of Statutory Auditors is part of the internal control system and its activities are carried out in compliance with the relevant regulatory requirements, including those set out by the Bank of Italy.

The following table sets forth the names, positions and principal activities of the current members of the Board of Statutory Auditors, all of whose appointments expire at the annual shareholders' meeting which is called for the approval of the Issuer's annual financial statements as at and for the year ending 31 December 2017:

Name	Position	Principal Activities Outside the Issuer
Francesco Tabone	Chairman and Statutory Auditor	Chairman and Statutory Auditor of Adespan S.r.l. Sole Statutory Auditor of Agility Logistics S.r.l. Alternate Auditor of Assoicim S.r.l. Chairman and Statutory Auditor of Avery Dennison Italia

Name	Position	Principal Activities Outside the Issuer
		S.r.l. Statutory Auditor of AZ Investimenti SIM S.p.A. Statutory Auditor of Azimut Capital Management SGR S.p.A. Statutory Auditor of Azimut Consulenza SIM S.p.A. Chairman and Statutory Auditor of B&T Environmental Energy Solutions S.p.A. Chairman and Statutory Auditor of Bel Italia S.p.A. Statutory Auditor of Carlo Gavazzi S.p.A. Statutory Auditor of Carlo Gavazzi Logistics S.p.A. Statutory Auditor of Carlo Gavazzi Controls S.p.A. Statutory Auditor of Carlo Gavazzi Automation S.p.A. Statutory Auditor of Castel S.r.l. Statutory Auditor of Cipa S.p.A. Statutory Auditor of Coccinelle S.p.A. Chairman and Statutory Auditor of Europa Benefits S.r.l. Alternate Auditor of AF.B.Holdings S.p.A. Alternate Auditor of F.B. Hydraulic S.r.l. Chairman and Statutory Auditor of F2a S.r.l. Statutory Auditor of Fi.Mo. Tech S.p.A. Statutory Auditor Futurimpresa Sgr S.p.A. Alternate Auditor of Helvetia Italia Assicurazioni S.p.A. Alternate Auditor of Helvetia Vita Alternate Auditor of Hydro Holding S.p.A. Alternate Auditor of Icim S.p.A. Alternate Auditor of Immobiliare Pierluigi S.p.A. Chairman and Statutory Auditor of Mandarina Duck Statutory Auditor of Mediapason S.p.A. Alternate Auditor of Millbo S.p.A. Alternate Auditor of Multiservice S.p.A. Sole Statutory Auditor of O.M.A. S.r.l. Chairman and Statutory Auditor of Picard I Surgelati Chairman and Statutory Auditor of Pomini Rubber & Plastics S.r.l. Statutory Auditor of Siolo Nuova S.p.A. Alternate Auditor of Sira Industrie S.p.A. Statutory Auditor of Sisal S.p.A. Statutory Auditor of Sisal Group S.p.A. Alternate Auditor of TEF S.p.A. Statutory Auditor of Telelombardia S.r.l. Sole Director of Topeeka S.r.l. Chairman and Statutory Auditor of Via delle Perle S.p.A. Chairman and Statutory Auditor of Virgin Active Italia S.p.A. Chairman and Statutory Auditor of Wolford Italia S.r.l.
Marco Lori	Statutory Auditor	Chairman and Statutory Auditor of Augustum Opus SIM S.p.A. Chairman and Statutory Auditor of Azimut Capital Management SGR S.p.A. Chairman and Statutory Auditor of Azimut Consulenza SIM S.p.A. Chairman and Statutory Auditor of Azimut Financial Insurance S.p.A. Chairman and Statutory Auditor of CGM Italia SIM S.p.A.

Name	Position	Principal Activities Outside the Issuer
		Director of Cofircont Compagnia Fiduciaria S.p.A. Statutory Auditor of COIMA RES S.p.A. Statutory Auditor of Diners Club International S.p.A. Statutory Auditor of Futurimpresa SGR Chairman and Director of Professional Audit Group S.r.l. Statutory Auditor of Statutory Auditor of Programma 101 S.p.A. Alternate Auditor of Rohm and Haas Italia S.r.l. Alternate Auditor of S.P.L.I.A. S.p.A.
Giancarlo de Marchi	Statutory Auditor	Chairman and Statutory Auditor of F.B. Hydraolic S.r.l. Statutory Auditor of SIRA Industrie S.p.A. Alternate Auditor of Europa Benefits S.r.l. Alternate Auditor of Virgin Active Italia S.p.A. Chairman and Statutory Auditor of Hydro Holding S.p.A. Chairman and Statutory Auditor of F.B. Holding S.p.A. Alternate Auditor of Turbocoating S.p.A. Chairman and Statutory Auditor of Tieffe S.p.A.
Patrizia Paleologo Oriundi	Alternate Auditor	Alternate Auditor of Adespan S.r.l. Statutory Auditor of ASSOICIM Statutory Auditor of Avery Dennison Italia Sr.l. Statutory Auditor of Autogrill S.p.A Alternate Auditor of Bnp Paribas Cardif Vita Alternate Auditor of Carlo Gavazzi Automation S.p.A. Alternate Auditor of Carlo Gavazzi Controls S.p.A. Alternate Auditor of Carlo Gavazzi Logistics S.p.A. Alternate Auditor of Carlo Gavazzi S.p.A. Alternate Auditor of CGT Logistica Sistemi S.p.A. Chairman and Statutory Auditor of Close Up S.p.A. Statutory Auditor of Esprinet S.p.A. Alternate Auditor of Europa Benefits S.r.l. Chairman and Statutory Auditor of Helvetia Italia Assicurazioni S.p.A. Statutory Auditor of Chiara Assicurazioni S.p.A. Statutory Auditor of ICIM S.p.A. Alternate Auditor of Immobiliare Pierluigi S.p.A. Alternate Auditor of Mediapason S.p.A. Alternate Auditor of Recordati Industria Chimica e Farmaceutica S.p.A. Alternate Auditor of Supercolori S.p.A. Sole Statutory Auditor of Simoro S.r.l. Statutory Auditor of Virgin Active S.p.A. Statutory Auditor of World Duty Free S.p.A.
Alessandro Cavallaro	Alternate Auditor	Chairman and Statutory Auditor of Allianz Subalpina Holding S.p.A. Statutory Auditor of Allianz S.p.A. Statutory Auditor of Allianz Bank Financial Advisors S.p.A. Statutory Auditor of Intermediass S.r.l. Alternate Auditor of Nonino S.p.A.

In accordance with Italian law, members of the Board of Statutory Auditors are registered members of the registry of certified public accountants (*Revisori Contabili*) held by the Italian Ministry of Justice.

The business address of the members of the Board of Statutory Auditors is Via Domenichino, 5, Milan, Italy.

Conflicts of Interest

As of the date of this Prospectus, there is no actual or potential conflict of interest between the duties of any of the members of the Board of Directors or Board of Statutory Auditors of the Issuer and their respective private interests or other duties.

Recent Developments

Coface Partnership

In March 2016 we entered into a partnership agreement with Compagnie Française d'Assurance pour le Commerce Extérieur S.A. ("**Coface**"), one of the world leaders in the credit insurance business, for the management of receivables owed to suppliers by public administration entities. The agreement is intended to provide our customers with a broader range of services and skills in the context of both our Credit Collection Management and Non-Recourse Factoring businesses.

Magellan Acquisition

In June 2016 the Magellan Tender Offer launched by Mediona was completed. For further information, see "*Acquisition of Magellan*" on pages 56 to 58 above.

Launch of Cuenta Facto in Germany

In June 2016, the Issuer launched the Cuenta Facto online deposits account, issued by its Spanish branch, on the German retail market through the online marketplace *Weltsparen.de*. The Issuer operates in Germany under a tripartite service agreement with Raisin GmbH, the company that manages *Weltsparen.de*, and MHB-Bank AG, a German-licensed bank that performs all customer identification and on-boarding activities pursuant to German anti-money laundering regulations. The Issuer received authorisation to carry out these activities in April 2016 from the Bank of Italy.

Strategy of the Issuer

As at the date of this Prospectus the Issuer is considering certain strategic options for the development of its business, including a possible initial public offering on the Italian market.

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The following tables contain consolidated balance sheet and income statement information of the Group as at and for the years ended 31 December 2015 and 2014, derived from the Issuer's audited consolidated annual financial statements as at and for the year ended 31 December 2015 and 2014.

This information should be read in conjunction with, and is qualified in its entirety by reference to the Issuer's consolidated annual financial statements as at and for the years ended 31 December 2015 and 2014, together with the accompanying notes and auditors' reports, all of which are incorporated by reference in this Prospectus. See "*Documents Incorporated by Reference*".

All of the above financial statements are prepared in accordance with IFRS and have been audited by the Issuer's independent auditors, PricewaterhouseCoopers S.p.A. The tables below are translated into English from the original Italian.

BANCA FARMAFACTORING S.p.A.

AUDITED CONSOLIDATED ANNUAL BALANCE SHEETS

Assets	**As at 31 December**	
	2015	**2014**
	(Euro)	
Cash and cash balances	159,775	3,213
Available for sale financial assets	429,437,687	370,179,751
Held to maturity financial assets	822,858,767	955,931,754
Due from banks	60,522,545	97,726,016
Due from customers	1,962,004,347	1,554,957,278
Property, plant and equipment	12,665,596	12,692,677
Intangible assets	2,746,916	2,052,729
of which Goodwill	-	-
Tax assets	28,053,378	31,117,308
a) current	*25,113,356*	*28,571,839*
b) deferred	*2,940,022*	*2,545,469*
of which for purpose of L.214/2011	*546,940*	*469,560*
Other assets	3,105,924	2,106,082
Total consolidated assets	**3,321,554,935**	**3,026,766,808**

Liabilities and equity	**As at 31 December**	
	2015	**2014**
	(Euro)	
Due to banks	688,080,771	968,264,434
Due to customers	1,726,682,877	1,168,587,308
Securities issued	452,962,115	468,562,312
Financial liabilities held for trading	-	45,760
Hedging derivatives	-	47,224
Tax liabilities	70,582,775	73,056,615
a) current	*23,804,794*	*30,885,193*
b) deferred	*46,777,981*	*42,171,422*
Other liabilities	45,884,998	32,376,784
Employee severance indemnities	883,124	716,829
Provisions for risks and charges	5,194,831	4,315,574
a) pension fund	*4,829,872*	*3,952,350*
b) other provisions	*364,959*	*363,224*
Valuation reserves	4,183,573	4,034,924
Reserves	127,409,048	51,481,508
Share capital	30,900,000	130,900,000
Profit for the year	68,790,823	124,377,536
Total consolidated liabilities and equity	**3,321,554,935**	**3,026,766,808**

BANCA FARMAFACTORING S.p.A.

AUDITED CONSOLIDATED ANNUAL INCOME STATEMENTS

	For the year ended 31 December	
	2015	**2014**
	(Euro)	
Interest income and similar revenues	161,945,547	252,550,454
Interest expense and similar expenses	(28,898,423)	(44,239,657)
Net interest margin	**133,047,124**	**208,310,797**
Fee and commission income	8,388,544	9,444,411
Fee and commission expenses	(445,659)	(1,205,443)
Net fees and commission income	**7,942,885**	**8,238,968**
Gains/losses on trading	45,760	496,971
Fair value adjustment in hedge accounting	(22,837)	(7,378)
Gains (losses) on disposal and repurchase of:	-	
b) available for sale financial assets	871,871	953,391
Operating income	**141,884,803**	**217,992,749**
Impairment losses/reversal on:		
a) receivables	(1,125,531)	43,395
b) available for sale financial assets	-	-
c) financial assets held to maturity	-	-
d) other financial assets	-	-
Net profit from banking activities	**140,759,272**	**218,036,144**
Net profit from banking and insurance activities	**140,759,272**	**218,036,144**
Administrative expenses:		
a) personnel costs	(18,476,448)	(14,828,301)
b) other administrative expenses	(27,090,536)	(21,125,921)
Net provisions for risks and charges	(879,257)	(1,279,960)
Net adjustments to/write backs on property, plant and equipment	(1,114,700)	(1,053,239)
Net adjustments to/write backs on intangible assets	(1,022,515)	(689,285)
Other operating income/expenses	4,143,812	7,032,443
Operating expenses	**(44,439,644)**	**(31,944,263)**
Profit before tax from continuing operations	**96,319,628**	**186,091,881**
Income taxes on profit from continuing operations	(27,528,805)	(61,714,345)
Profit after tax from continuing operations	**68,790,823**	**124,377,536**
Profit for the year	**68,790,823**	**124,377,536**
Profit for the year attributable to owners of the parent	**68,790,823**	**124,377,536**

TAXATION

The statements herein regarding taxation are based on the laws in force in Italy as at the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following overview does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to subscribe for, purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which may be subject to special rules. This overview will not be updated by the Issuer after the Issue Date to reflect changes in laws after the Issue Date and, if such a change occurs, the information in this description could become invalid.

Prospective purchasers of the Notes are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Notes.

Tax treatment of Interest

Italian Legislative Decree no. 239 of 1 April 1996, as subsequently amended ("**Legislative Decree no. 239/1996**"), provides for the applicable regime with respect to the tax treatment of interest, premium and other similar income, including the difference between the redemption amount and the issue price (hereinafter, "**Interest**") deriving from Notes falling within the category of bonds (*obbligazioni*) or debentures similar to bonds (*titoli similari alle obbligazioni*) notes issued, *inter alia*, by Italian banks.

For these purposes, securities similar to bonds (*titoli similari alle obbligazioni*) are securities that incorporate an unconditional obligation of the issuer to pay at maturity an amount not lower than their nominal value, with or without the payment of periodic interest, and do not give any right to directly or indirectly participate in the management of the issuer or to the business in connection to which the securities were issued, nor to control the same.

The tax regime set forth by Legislative Decree no. 239/1996 also applies to interest, premium and other income from regulatory capital financial instruments complying with EU and Italian regulatory principles, issued by, *inter alia*, Italian banks, other than shares and assimilated instruments.

Italian resident Noteholders

Noteholders not engaged in an entrepreneurial activity

Where an Italian resident Noteholder is (i) an individual (unless he has opted for the application of the *risparmio gestito regime* – see under "*Capital gains tax*" below – where applicable); (ii) a partnership (other than *società in nome collettivo*, *società in accomandita semplice* or a similar partnership), a *de facto* partnership not carrying out commercial activities and a professional association; (iii) a public and private entity (other than a company) and trust not carrying out commercial activities; or (iv) an investor exempt from Italian corporate income taxation, Interest relating to the Notes, accrued during the relevant holding period, are subject to an *imposta sostitutiva*, levied at the rate of 26 per cent. The *imposta sostitutiva* may not be recovered as a deduction from the income tax due.

Noteholders engaged in an entrepreneurial activity

If the Noteholders described under (i) or (iii) above are engaged in an entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* applies as a provisional tax and may be deducted from the income tax due.

Where an Italian resident Noteholder is a company or similar commercial entity (including limited partnerships qualified as *società in nome collettivo* or *società in accomandita semplice* and private and public institutions carrying out commercial activities and holding the Notes in connection with this kind of activities) or a permanent establishment in Italy, to which the Notes are effectively connected, of a

non-Italian resident entity and the Notes are deposited with an authorised intermediary, Interest from the Notes will not be subject to *imposta sostitutiva*, but must be included in the relevant Noteholder's income tax return and are therefore subject to ordinary Italian corporate taxation (and, in certain circumstances, depending on the "status" of the Noteholder, also to IRAP – the regional tax on productive activities).

S.I.I.Q., Real Estate Funds and Real Estate SICAFs

Where the Noteholder is an Italian S.I.I.Q. (*società di investimento immobiliare quotata*), the ordinary tax regime of Italian companies will apply to any Interest from the Notes; thus, if the Notes are deposited with an authorised Italian intermediary Interest from the Notes will not be subject to *imposta sostitutiva* and will be included in the taxable income of the Noteholder subject to ordinary Italian corporate taxation.

Payments of Interests relating to the Notes, deposited with an authorised intermediary, made to Italian real estate investment funds established pursuant to article 37 of Legislative Decree no. 58 of 24 February 1998 ("**Legislative Decree no. 58/1998**"), or pursuant to article 14-*bis* of Law no. 86 of 25 January 1994 set up starting from 26 September 2001, as well as real estate funds incorporated before 26 September 2001, the managing company of which has so requested by 25 November 2001 (the "**Italian Real Estate Fund**"), are subject neither to *imposta sostitutiva* nor to any other income tax in the hands of the Real Estate Investment Fund. A withholding tax may apply in certain circumstances at the rate of up to 26 per cent. on distributions made by Italian Real Estate Funds. In certain cases, a tax transparency regime may apply in respect of certain categories of investors in the Italian Real Estate Fund owning more than 5 per cent. of the fund's units.

Pursuant to article 9 of Legislative Decree no. 44 of 4 March 2014, the same regime applicable to Real Estate Funds also applies to *società di investimento a capitale fisso* ruled by Legislative Decree no. 58/1998 exclusively or primarily investing in real estate in the measures provided under the applicable implementing regulations ("**Real Estate SICAF**").

Funds, SICAVs and SICAFs (other than Real Estate SICAFs)

Where an Italian resident Noteholder is an Italian open-ended or a closed-ended investment fund ("**Fund**") or a *società d'investimento a capitale variabile* ("**SICAV**") or a *società di investimento a capitale fisso* not exclusively or primarily investing in real estate ("**SICAF**") and the Notes are deposited with an authorised intermediary, Interest relating to the Notes will not subject to *imposta sostitutiva*. A withholding tax may apply in certain circumstances at the rate of up to 26 per cent. on distributions made by the Fund, the SICAV or the SICAF to certain categories of investors upon redemption or disposal of the units or the shares.

Pension Funds

Where an Italian resident Noteholder is a pension fund (subject to the regime provided for by article 17 of Italian Legislative Decree no. 252 of 5 December 2005, as subsequently amended, "**Italian Pension Fund**") and the Notes are deposited with an authorised intermediary, Interest relating to the Notes and accrued during the holding period will not be subject to *imposta sostitutiva*, but must be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to an 20 per cent. substitute tax.

Enforcement of the imposta sostitutiva

Pursuant to Legislative Decree no. 239/1996, *imposta sostitutiva* is applied by banks, *società di intermediazione mobiliare* ("**SIMs**"), fiduciary companies, *società di gestione del risparmio* ("**SGRs**"), stockbrokers and other entities identified by a decree of the Ministry of Finance (each an "**Intermediary**"). An Intermediary must (i) be resident in Italy or a permanent establishment in Italy of a

non-Italian resident financial intermediary; and (ii) intervene, in any way, in the collection of Interest or in the transfer of the Notes. For the purpose of the application of the *imposta sostitutiva*, a transfer of Notes includes any assignment or other act, either with or without consideration, which results in a change in the ownership of the relevant Notes or a transfer of the Notes to another deposit or account held with the same or another Intermediary.

Where the Notes are not deposited with an Intermediary, the *imposta sostitutiva* is applied and withheld by the intermediary paying Interest to a Noteholder (or by the Issuer, should the income be paid directly by the latter).

Non-Italian resident Noteholders

Where the Noteholder is a non-Italian resident without a permanent establishment in Italy to which the Notes are effectively connected, an exemption from the *imposta sostitutiva* applies, provided that the non-Italian resident beneficial owner is either (i) resident, for tax purposes, in a country which allows for a satisfactory exchange of information with Italy (the "**White List States**"); (ii) an international body or entity set up in accordance with international agreements which has entered into force in Italy; (iii) a Central Bank or an entity which manages, *inter alia*, the official reserves of a foreign State; or (iv) an institutional investor which is incorporated in a White List State, even if it is not subject to income tax therein. White List States are currently identified by Ministerial Decree of 4 September 1996.

In order to ensure gross payment, non-Italian resident Noteholders must be the beneficial owners of the payments of Interest and (i) deposit, directly or indirectly, the Notes with a resident bank or SIM or a permanent establishment in Italy of a non-Italian resident bank or a SIM or with a non-Italian resident entity or company participating in a centralised securities management system which is in contact, via computer, with the Ministry of Economy and Finance; and (ii) file with the relevant depository, prior to or concurrently with the deposit of the Notes, a statement of the relevant Noteholder, which remains valid until withdrawn or revoked and in which the Noteholder declares itself to be eligible to benefit from the applicable exemption from *imposta sostitutiva*. Such statement, which is requested neither for the international bodies or entities set up in accordance with international agreements which have entered into force in Italy, nor in the case of foreign Central Banks or entities which manage, *inter alia*, the official reserves of a foreign State, must comply with the requirements set forth by the Ministerial Decree dated 12 December 2001. In the case of institutional investors which do not possess the status of taxpayers in their own country, the institutional investor is considered the beneficial owner and the statement under (ii) above shall be issued by the relevant management body.

The *imposta sostitutiva* will be applicable at the rate of 26 per cent. to be reduced according to the applicable double tax treaty, if any, to Interest paid to Noteholders which are resident, for tax purposes, in countries which do not allow for a satisfactory exchange of information with Italy or for which the above-mentioned provisions are not met.

Certain Italian tax considerations on Capital gains on the Notes

Italian resident Noteholders

Noteholders not engaged in an entrepreneurial activity

Where an Italian resident Noteholder is an individual holding the Notes not in connection with an entrepreneurial activity and certain other persons (such as a non-commercial partnership and a non-commercial private or public institution), any capital gain realised by such Noteholder from the sale or redemption of the Notes would be subject to an *imposta sostitutiva*, levied at the current rate of 26 per cent. pursuant to Legislative Decree no. 461 of 21 November 1997 ("**Legislative Decree no. 461/1997**").

In respect of the application of the *imposta sostitutiva*, taxpayers may opt for one of the three regimes described below:

(i) under the tax declaration regime (*regime della dichiarazione*), which is the standard regime for Italian resident individuals not engaged in entrepreneurial activity to which the Notes are connected, the *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by the Italian resident individual Noteholder holding Notes not in connection with an entrepreneurial activity pursuant to all sales or redemptions of the Notes carried out during any given tax year. Italian resident individuals holding Notes not in connection with an entrepreneurial activity must indicate the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax return and pay *imposta sostitutiva* on such gains together with any balance of income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years. Pursuant to Law Decree no. 66 of 24 April 2014 ("**Law Decree no. 66/2014**") capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of: (a) 48.08 per cent. if realised before 1 January 2012; (b) 76.92 per cent. of the capital losses if realised from 1 January 2012 to 30 June 2014;

(ii) as an alternative to the tax declaration regime, Italian resident individual Noteholders holding the Notes not in connection with an entrepreneurial activity may elect to pay the *imposta sostitutiva* separately on capital gains realised on each sale or redemption of the Notes (the *risparmio amministrato regime*). Such separate taxation of capital gains is allowed subject to (a) the Notes being deposited with Italian banks, SIMs or certain authorised financial intermediaries; and (b) an express election for the *risparmio amministrato* regime being made punctually in writing by the relevant Noteholder. The depository is responsible for accounting for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of the Notes, net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authorities on behalf of the taxpayer, deducting a corresponding amount from the proceeds to be credited to the Noteholder or using funds provided by the Noteholder for this purpose. Under the *risparmio amministrato* regime, where a sale or redemption of the Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised, within the same securities management, in the same tax year or in the following tax years up to the fourth. Pursuant to Law Decree no. 66/2014 capital losses may be carried forward to be offset against capital gains of the same nature realised after 30 June 2014 for an overall amount of: (a) 48.08 per cent. of the relevant capital losses realised before 1 January 2012; (b) 76.92 per cent. of the capital losses realised from 1 January 2012 to 30 June 2014. Under the *risparmio amministrato* regime, the Noteholder is not required to declare the capital gain in its annual tax return and the Noteholder remains anonymous;

(iii) any capital gains realised by Italian resident individuals holding the Notes not in connection with an entrepreneurial activity who have entrusted the management of their financial assets, including the Notes, to an authorised intermediary and have opted for the so-called "*risparmio gestito*" regime will be included in the computation of the annual increase in value of the managed assets accrued, even if not realised, at year end, subject to a 26 per cent. substitute tax to be paid by the managing authorised intermediary. Under the *risparmio gestito* regime, any depreciation of the managed assets accrued at year-end may be carried forward against increase in value of the managed assets accrued in any of the four succeeding tax years. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gains realised in its annual tax return. According to Law Decree no. 66/2014, decreases in value accrued on the investment portfolio may be carried forward to be offset against increase in value accrued after 30 June 2014 for an overall amount of: (a) 48.08 per cent. of the decreases accrued before

1 January 2012; (b) 76.92 per cent. of the decreased accrued from 1 January 2012 to 30 June 2014. Under the *risparmio gestito* regime, the Noteholder is not required to declare the capital gain realised in its annual tax return.

Noteholders engaged in an entrepreneurial activity

Any gain obtained from the sale or redemption of the Notes would be treated as part of the taxable income (and, in certain circumstances, depending on the "status" of the Noteholder, also as part of the net value of production for IRAP purposes) if realised by (i) Italian resident companies; (ii) Italian resident commercial partnerships; (iii) permanent establishments in Italy of foreign corporations to which the Notes are effectively connected; or (iv) Italian resident individuals carrying out a commercial activity, as to any capital gains realised within the scope of the commercial activity carried out.

S.I.I.Q., Real Estate Funds and Real Estate SICAFs

Any capital gain realised by an Italian S.I.I.Q. is taxable pursuant to the ordinary regime of Italian resident companies and thus will be treated as part of the taxable income of the Noteholder to be subject to Italian corporate taxation.

Any capital gain realised by a Noteholder which is an Italian Real Estate Fund or a Real Estate SICAF concurs to the year-end appreciation of the managed assets, which is exempt from any income tax according to the real estate investment fund tax treatment described above. A withholding tax may apply in certain circumstances at the rate of 26 per cent. on income realized by the participants on distributions or redemption of the units or the shares (where the item of income realised by the participants may include the capital gains on the Notes). As mentioned, in certain cases a tax transparency regime may apply in respect of certain categories of investors in the Italian Real Estate Fund and Real Estate SICAF owning more than 5 per cent. of the units or the shares.

Funds, SICAVs and SICAFs (other than Real Estate SICAFs)

Capital gains realised by a Noteholder which is a Fund, a SICAV or a SICAF will not be subject neither to substitute tax nor to any other income tax in the hands of the Fund, the SICAV or the SICAF. A withholding tax may apply in certain circumstances at the rate of 26 per cent. on distributions made by the Fund, the SICAV or the SICAF to certain categories of investors.

Pension Funds

Any capital gain realised by a Noteholder which is an Italian Pension Fund will be included in the result of the relevant portfolio accrued at the end of the tax period, to be subject to the 20 per cent. substitute tax.

Non-Italian resident Noteholders

The 26 per cent. final *imposta sostitutiva* on capital gains may be payable on capital gains realized upon sale for consideration or redemption of the Notes by non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are effectively connected, if the Notes are held in Italy.

However, any capital gains realized by non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected through the sale for consideration or redemption of the Notes are exempt from taxation in Italy if the Notes are traded on a regulated market in Italy or abroad and, in certain cases, subject to timely filing of required documentation (in particular, a self-declaration not to be resident in Italy for tax purposes), even if the Notes are held in Italy and regardless of the provisions set forth by any applicable double tax treaty.

In case the Notes are not traded on a regulated market in Italy or abroad, pursuant to the provisions of article 5 of Legislative Decree no. 461/1997, non-Italian resident beneficial owners of the Notes

without a permanent establishment in Italy to which the Notes are effectively connected are exempt from *imposta sostitutiva* in Italy on any capital gain realized, upon sale for consideration or redemption of the Notes, if they are resident, for tax purposes, in a White List State as defined above.

In such case, if non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected hold the Notes with an Italian authorised financial intermediary, in order to benefit from exemption from Italian taxation on capital gains, such non-Italian residents may be required to timely file with the authorised financial intermediary an appropriate self-declaration stating they are resident for tax purposes in a White List State.

Exemption from Italian *imposta sostitutiva* on capital gains realised upon disposal of Notes not listed on a regulated market also applies to non-Italian residents who are (i) international bodies and organisations established in accordance with international agreements ratified in Italy; (ii) certain foreign institutional investors established in White List States, even if not subject to income tax therein; and (iii) Central Banks or other entities, managing also official State reserves.

In any event, non-Italian resident individuals or entities without a permanent establishment in Italy to which the Notes are effectively connected that may benefit from a double taxation treaty with Italy, providing that capital gains realised upon sale or redemption of Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in Italy on any capital gains realised upon sale for consideration or redemption of Notes.

In such case, if non-Italian residents without a permanent establishment in Italy to which the Notes are effectively connected hold the Notes with an Italian authorised financial intermediary, in order to benefit from exemption from Italian taxation on capital gains, such non-Italian residents may be required to timely file, with the authorised financial intermediary, appropriate documents which include, *inter alia,* a certificate of residence issued by the competent tax authorities of the country of residence of the non-Italian residents.

The *risparmio amministrato* regime is the ordinary regime automatically applicable to non-resident persons and entities in relation to Notes deposited for safekeeping or administration at Italian banks, SIMs and other eligible entities, but non-resident Noteholders retain the right to waive this regime. Such waiver may also be exercised by non-resident intermediaries in respect of safekeeping, administration and deposit accounts held in their names in which third parties' financial assets are held.

Italian inheritance and gift tax

Under Law Decree no. 262 of 3 October 2006 (converted with amendments into Law no. 286 of 24 November 2006), as subsequently amended, transfers of any valuable asset (including shares, bonds or other securities) as a result of death or gift or gratuities are taxed as follows:

(a) transfers in favour of spouses, direct ascendants or descendants are subject to an inheritance and gift tax applied at a rate of 4 per cent. on the entire value of the inheritance or the gift exceeding Euro l,000,000 for each beneficiary;

(b) transfers in favour of relatives within the fourth degree, ascendants or descendants' relatives in law or other relatives in law within the third degree are subject to an inheritance and gift tax at a rate of 6 per cent. on the entire value of the inheritance or the gift. Transfers in favour of brothers/sisters are subject to the 6 per cent. inheritance and gift tax on the entire value of the inheritance or the gift exceeding Euro 100,000 for each beneficiary; and

(c) any other transfer is, in principle, subject to an inheritance and gift tax at a rate of 8 per cent. on the entire value of the inheritance or the gift.

If the transfer is made in favour of persons with severe disabilities, the tax applies on the value exceeding Euro 1,500,000 at the rates shown above, depending on the type of relationship existing between the deceased or donor and the beneficiary.

Transfer tax

Contracts relating to the transfer of the Notes are subject to the registration tax as follows:

(a) public deeds and notarized deeds (*atti pubblici e scritture private autenticate*) are subject to fixed registration tax at rate of Euro 200; and

(b) private deeds (*scritture private non autenticate*) are subject to fixed registration tax of Euro 200 only (i) in case of voluntary registration, or (ii) in case of cross reference in a deed, agreement or other document entered into, executed or signed by the same parties thereto and registered with the competent Registration Tax Office or in a judicial decision (*enunciazione*), or (iii) in "case of use". According to article 6 of the Presidential Decree no. 131 of 26 April 1986, a "case of use" would occur if the relevant document is deposited with a central or local government office or with a court chancery in connection with an administrative procedure.

Wealth tax

According to article 19 of Law Decree no. 201 of 6 December 2011 ("**Law Decree no. 201/2011**"), Italian resident individuals holding financial assets – including the Notes – outside of the Italian territory are required to pay a wealth tax at the rate of 0.2 per cent. The tax applies on the market value at the end of the relevant year or – in the lack of the market value – on the nominal value or redemption value of such financial assets held outside of the Italian territory. Taxpayers are enabled to deduct from the tax a tax credit equal to any wealth taxes paid in the State where the financial assets are held (up to the amount of the Italian wealth tax due).

Stamp duty

According to article 19 of Law Decree no. 201/2011, a proportional stamp duty applies on a yearly basis at the rate of 0.2 per cent. on the market value or – in the lack of a market value – on the nominal value or the redemption amount of any financial product or financial instruments (as the Notes). For investors other than individuals, the annual stamp duty cannot exceed the amount of Euro 14.000. Based on the wording of the law and the implementing decree issued by the Italian Ministry of Finance on 24 May 2012, the stamp duty applies to any investor who is a client (as defined in the regulations issued by the Bank of Italy on 9 February 2011) of an entity that exercises in any form a banking, financial or insurance activity within the Italian territory.

Tax monitoring obligations

Pursuant to Law Decree no. 167 of 28 June 1990 individuals, non-commercial entities and non-commercial partnerships (*società semplici* or similar partnerships in accordance with article 5 of the Italian Presidential Decree no. 917 of 22 December 1986) which are resident in Italy for tax purposes and in the course of the year hold (or are beneficial owners, as defined for anti-money laundering purposes, of) investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transactions to the Italian tax authorities in their income tax return (or, in case the income tax return is not due, in a proper form that must be filed within the same time as the income tax return), regardless of the value of such assets (save for deposits or bank accounts having an aggregate value not exceeding Euro 15,000 throughout the year). The requirement applies also where the persons above, being not the direct holder of the financial instruments, are the actual owner of the instrument.

The above reporting is not required to be complied with respect to Notes deposited with qualified Italian intermediaries and with respect to contracts entered into through their intervention, provided

that the financial flows and income derived from the Notes are subject to tax by the same intermediaries.

EU Savings Directive and implementation in Italy

On 3 June 2003 the EU Council of Economic and Finance Ministers ("**ECOFIN"**) adopted the European Council Directive no. 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"). Under the Directive, Member States, if a number of important conditions are met, are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within their jurisdiction to an individual resident in that other Member State.

On 10 November 2015 the Council of the European Union issued Directive no. 2015/2060 ("**Directive no. 2015/2060**") repealing with effect from 1 January 2016 the EU Savings Directive. Certain provisions of the EU Savings Directive will continue to be effective during 2016 and Austria will continue to apply the EU Savings Directive until 31 December 2016 (and until 30 June 2017 in relation to some provisions).

The aim of Directive no. 2015/2060 is to prevent overlap between the obligations provided for in the EU Saving Directive and the new automatic exchange of information regime set forth by Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended by Council Directive 2014/107/EU). The new regime under Council Directive 2011/16/EU (as amended) is in accordance with the Global Standard released by the Organization for Economic Cooperation and Development in July 2014. Council Directive 2011/16/EU (as amended) is generally broader in scope than the EU Savings Directive, although it does not impose withholding taxes.

Notwithstanding the repeal of the EU Savings Directive, information gathered by paying agents, economic operators and by Member States before the date of the repeal should be processed and transferred as originally envisaged, and obligations arising before that date should be met.

Italy has implemented the EU Savings Directive through Legislative Decree no. 84 of 18 April 2005 ("**Legislative Decree no. 84/2005**") as of 1 July 2005, Under Legislative Decree no. 84/2005, subject to a number of important conditions being met, in the case of interest paid to individuals which qualify as beneficial owners of the interest payment and are resident for tax purposes in another Member State, Italian qualified paying agents shall report to the Italian tax authorities details of the relevant payments and personal information on the individual beneficial owner. Such information is transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

The Proposed Financial Transaction Tax

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") to be implemented by Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia only (the "**Participating Member States**").

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside the Participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a Participating Member State. A financial institution may be, or be deemed to be, "established" in a Participating Member State in a broad range of circumstances, including (a) by transacting with a person

established in a Participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a Participating Member State.

However, the FTT proposal remains subject to negotiation between the Participating Member States and the scope of any such tax is uncertain.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement between the Issuer and the Lead Manager dated 20 June 2016 (the "**Subscription Agreement**"), the Lead Manager has agreed to subscribe and pay for the Notes on the Closing Date. The Issuer has agreed to pay commissions to the Lead Manager and to reimburse certain of its expenses incurred in connection with the management of the issue of the Notes. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act or any state securities laws in the United States. The Notes are being offered only outside the United States by the Lead Manager to certain investors in offshore transactions in reliance on Regulation S, and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, "U.S. persons", except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

The Lead Manager has represented and warranted that it has not offered and sold the Notes, and that it will not offer and sell the Notes (a) as part of its own distribution at any time or (b) otherwise until forty (40) days after the later of the commencement of the offering and the Closing Date, except in accordance with Rule 903 of Regulation S. Accordingly, neither the Lead Manager nor any of its Affiliates (as defined in Rule 405 of the Securities Act) nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Notes, and the Lead Manager has represented and agreed that it has complied and will comply with the offering restrictions requirement of Regulation S. The Lead Manager has agreed that, at or prior to confirmation of sale of the Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

> "*The securities covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered and sold within the United States or to, or for the account or benefit of, "U.S. persons" (i) as part of their distribution at any time or (ii) otherwise, until forty (40) days after the later of the commencement of the offering and the Closing Date, except pursuant to an exemption from, or in a transaction not subject to, the regulation requirements of the Securities Act. Terms used above have the meanings given to them by Regulation S*."

Terms used in the above paragraph have the meanings given to them by Regulation S.

The Lead Manager has represented, warranted and agreed with the Issuer that:

(a) except to the extent permitted under U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**D Rules**"):

  (i) it has not offered or sold, and during the forty (40) day restricted period will not offer or sell, Notes in bearer form to a person who is within the United States or its possessions or to a United States person; and

  (ii) it has not delivered and will not deliver in definitive form within the United States or its possessions any definitive Notes in bearer form that are sold during the restricted period;

(b) it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes in bearer form are aware that such Notes may not be offered or sold during the restricted period to a person

who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, (i) it is acquiring the Notes in bearer form for the purposes of resale in connection with their original issue and (ii) if it retains Notes in bearer form for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulation §1.163-5(c)(2)(i)(D)(6); and

(d) with respect to each Affiliate (as defined in Rule 405 of the Securities Act) of the Lead Manager that acquires Notes in bearer form from the Lead Manager for the purpose of offering or selling such Notes during the restricted period, the Lead Manager undertakes to the Issuer that it will either (i) repeat and confirm the representations and agreements contained in sub-paragraphs (a), (b) and (c) on its behalf or (ii) obtain from such affiliate for the benefit of the Issuer the representations and undertakings contained in subparagraphs (a), (b) and (c) above.

Terms used in the above paragraph have the meaning given to them by the United States Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

In addition, until forty (40) days after the commencement of the offering, an offer or sale of securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Lead Manager has acknowledged that the Notes will be represented upon issuance by the Temporary Global Note which is not exchangeable for Permanent Global Notes or definitive Notes until the expiration of the 40-day distribution compliance period and, for persons other than distributors, until certification of beneficial ownership of the Notes by a non-U.S. person or a U.S. person who purchased securities in a transaction that did not require registration under the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

United Kingdom

The Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, the Lead Manager has represented and agreed that no Notes may be offered, sold or delivered nor may copies of the Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(a) to qualified investors (*investitori qualificati*), as defined under Article 100 of Italian Legislative Decree No. 58 of 24 February 1998 (otherwise known as the *Testo Unico della Finanza* or the "**TUF**"), as implemented by Article 34-*ter*, first paragraph, letter b) of CONSOB Resolution No. 11971 of 14 May 1999 (otherwise known as the *Regolamento Emittenti* or the "**Issuers' Regulation**") and Article 26, paragraph 1(d) of CONSOB Regulation No. 16190 of 29 October 2007 ("**Regulation No. 16190**"); or

(b) in circumstances where an exemption from the rules governing public offers of securities applies, pursuant to Article 100 of the TUF and the implementing regulations of CONSOB, including Article 34-*ter*, first paragraph of the Issuers' Regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy must be made in compliance with the restrictions under (a) and (b) above, and:

(1) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the TUF, Regulation No. 16190 and Legislative Decree No. 385 of 1 September 1993 (otherwise known as the *Testo Unico Bancario* or the "**TUB**"), in each case as amended from time to time;

(2) in compliance with Article 129 of the TUB and the implementing guidelines of the Bank of Italy issued on 25 August 2015 (to the extent applicable) requiring periodic reporting to the Bank of Italy with data and information on the issue or the offer of securities in the Republic of Italy or by Italian persons outside of Italy; and

(3) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or any other competent authority.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession or distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

The Lead Manager has represented, warranted and agreed that it will, to the best of its knowledge and belief, comply with all the relevant laws and regulations in each jurisdiction in which it purchases, offers, sells or delivers Notes or has in its possession or distributes the Prospectus or any other offering material, in all cases at its own expense.

GENERAL INFORMATION

Authorisation

The creation and issue of the Notes has been authorised by a resolution of the Issuer's Board of Directors dated 13 May 2016.

Listing and Admission to Trading

Application has been made to the Irish Stock Exchange for the Notes to be admitted to trading on its regulated market and to be listed on the Official List. Admission is expected to take effect on or about the Closing Date.

Expenses related to Admission to Trading

The total expenses related to admission of the Notes to trading are estimated at €5,000.

Listing Agent

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on its regulated market for the purposes of the Prospectus Directive.

Legal and Arbitration Proceedings

Save as disclosed in "*Description of the Issuer – Legal Proceedings*", neither the Issuer nor any member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Group.

Significant/Material Change

Since 31 December 2015 there has been no material adverse change in the prospects of the Issuer and no significant change in the financial or trading position of the Group.

Auditors

The consolidated financial statements of the Group as at and for the years ended 31 December 2015 and 2014 have been audited without qualification by PricewaterhouseCoopers S.p.A., which is registered under No. 119644 in the Register of Accountancy Auditors (*Registro Revisori Legali*) by the Italian Ministry of Economy and Finance, in compliance with the provisions of the Legislative Decree No. 39 of 27 January 2010. PricewaterhouseCoopers S.p.A., which is located at Via Monte Rosa 91, 20149 Milan, Italy, is also a member of ASSIREVI (the Italian association of auditing firms).

Documents on Display

For so long as the Notes remain outstanding, physical or electronic copies of the following documents may be inspected during normal business hours at the offices of the Fiscal Agent at 13th Floor Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom:

(a) the By-laws (*statuto*) of the Issuer;

(b) the Agency Agreement;

(c) the Deed of Covenant; and

(d) the audited consolidated annual financial statements of the Group as at and for the years ended 31 December 2015 and 2014.

A copy of this Prospectus and any document incorporated by reference in this Prospectus will also be available for viewing on the website of the Irish Stock Exchange (*www.ise.ie*).

Interests of natural and legal persons involved in the issue/offer

The Lead Manager and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Lead Manager and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the account of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The Lead Manager or its affiliates that have a lending relationship with the Issuer may routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Lead Manager and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Lead Manager and its affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities or instruments.

In addition, as described in "*Subscription and Sale*", the Lead Manager will receive commission in connection with the subscription and sale of the Notes.

Yield

On the basis of the issue price of the Notes of 1.25 per cent. of their principal amount (plus accrued interest), the gross real yield of the Notes is 1.41 per cent. on an annual basis. Such amount is not, however, an indication of future yield.

Legend Concerning US Persons

The Notes and any Coupons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

ISIN and Common Code

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Notes have the following ISIN and common code assigned to them:

ISIN: XS1435298275

Common code: 143529827

ISSUER

Banca Farmafactoring S.p.A.
Registered office:
Via Domenichino, 5
20149 Milan
Italy

LEAD MANAGER

Citigroup Global Markets Limited
Citigroup Centre
Canada Square
Canary Wharf, London E14 5LB
United Kingdom

FISCAL AGENT AND PAYING AGENT

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf, London E14 5LB
United Kingdom

LISTING AGENT

Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

LEGAL ADVISERS

To the Issuer as to English and Italian law:

White & Case LLP
Piazza Diaz 2
20123 Milan
Italy

To the Issuer as to Italian tax law:

Ludovici & Partners
Via Sant'Andrea, 19
20121 Milan
Italy

To the Lead Manager as to English and Italian law:

Gianni, Origoni, Grippo, Cappelli & Partners

6 - 8 Tokenhouse Yard
London EC2R 7AS
United Kingdom

Piazza Belgioioso, 2
20121 Milan
Italy

AUDITORS TO THE ISSUER

PricewaterhouseCoopers S.p.A.
Via Monte Rosa, 91
20149 Milan
Italy