GRUPPO BANCARIO
BANCA FARMAFACTORING

2014 PILLAR III
DISCLOSURE TO THE PUBLIC

GRUPPO BANCARIO
BANCA FARMAFACTORING

Contents

Introduction

Starting January 1, 2014, the Basel Committee ("Basel 3") accords became part of the regulations of the European Union. The accords are aimed at strengthening the ability of banks to absorb shocks arising from financial and economic tensions, improving the management of risk and the governance structures, as well as strengthening the transparency and disclosure of the banks themselves.
Having said this, within the European Community, the contents of "Basel 3" have been introduced through two regulatory acts:
• Regulation (EU) 575/2013 of June 26, 2013 (CRR), on the prudential requirements for credit institutions and investment firms (Pillar I) and the rules on disclosure to the public (Pillar III);
• Directive 2013/36/EU of June 26, 2013 (CRD IV), which regards, among other, the conditions for access to the activity of credit institutions, the conditions for their exercise of the freedom of establishment and the freedom to provide services and additional reserves.

The above European regulation was transposed into Italian law pursuant to the Bank of Italy Circular 285 *"Supervisory provisions for banks"*, of December 17, 2013, which implemented CRR and CRD IV.

The Committee also maintained the approach based on the three "Pillars", which was the basis for the previous capital accord known as "Basel 2", integrating it so as to improve the quantity and quality of capital in the banking system.
In particular:

• the **First Pillar** defines the system of capital requirements that banks are required to comply with for the typical risks of banking activities: credit risk (which also includes counterparty risk), market risk and operational risk.
This aspect has been reinforced by introducing a definition of a higher quality of capital and the obligation of additional reserves for the preservation of capital, with the introduction of rules for the management of liquidity risk, both short term (Liquidity Coverage Ratio – LCR) and long term (Net Stable Funding Ratio – NSFR) and with the introduction of a limit to financial leverage.

• The **Second Pillar** requires banks to adopt strategies, control processes and instruments for determining, in addition to the risks identified in the First Pillar, present and future capital adequacy, charging the Supervisory Authority with the task of verifying the reliability and consistency of the relative results, and to adopt, where needed, appropriate corrective measures. The Group presents the "ICAAP summary" annually to Bank of Italy updating the risk management system aimed at the determination of the adequacy of capital.

• The **Third Pillar** establishes specific periodical disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for the identification, measurement and management of risks. This aspect has also been reviewed, by introducing additional transparency requisites and more detailed disclosure on the composition of regulatory capital and the way in which the bank calculates capital ratios.

In accordance with art. 433 of the CRR, banks shall publish disclosures at least annually in conjunction with the publication of the financial statements. Additionally, institutions shall assess the need to publish some, especially relating to Own Funds and capital requirements, or all disclosures more frequently than annually in the light of the relevant characteristics of their business.

To this end the Board of Directors of Banca Farmafactoring approved a dedicated procedure called "Disclosure to the Public (Pillar III)".
The procedure provides for the disclosure to be:
• approved by the Board of Directors before its dissemination;
• published on the website **www.bancafarmafactoring.it** at least once a year, within the time limit established for the publication of the financial statements and therefore within thirty days of the approval date of the financial statements by the Shareholders' Meeting.

The Banca Farmafactoring Banking Group has drawn up this document in compliance with the regulations, on a consolidated basis with reference to a scope of consolidation for purposes of prudential supervision.

This document is divided into 13 sections setting out qualitative and quantitative disclosure as at December 31, 2014. The sections that have no information content are not reported.

All amounts are expressed in thousands of euros, unless otherwise indicated.

A summary of the sections required by the reference law, with an indication of the disclosure published in this document, is presented below:

Section	Description/CRR Article References	Qualitative disclosure	Quantitative disclosure
1	Risk management objectives and policies - Art. 435	x	n.a.
2	Scope of application - Art. 436	x	n.a.
3	Own Funds - Art. 437	x	x
4	Capital requirements - Art. 438	x	x
5	Exposure to counterparty credit risk - Art. 439	x	x
6	Credit risk adjustments - Art. 442	x	x
7	Unencumbered assets - Art. 443	x	x
8	Use of ECAIs – Art. 444	x	x
9	Exposure to market risk – Art. 445	x	x
10	Operational risk - Art. 446	x	x
11	Exposure to interest rate risk on positions not included in the trading book – Art. 448	x	x
12	Exposure to securitization positions – Art. 449	x	x
13	Remuneration policy - Art. 450	x	x

Section 1. Risk management objectives and policies

Qualitative disclosure

Introduction

The Banking Group has adopted appropriate corporate governance measures as well as adequate management and control mechanisms for the purpose of managing the risks to which it is exposed; such safeguards are included in the management and internal control system, aiming to ensure a management inspired by efficiency, effectiveness and fairness principles, covering every type of corporate risk consistently with the characteristics, size and complexity of the business carried out.
With this in mind, the Group designed its risk management policies, over which it carries out periodic reviews, for the purpose of ensuring effectiveness over time and supervising, on an ongoing basis, the actual functioning of the risk management and control processes.

Such policies define:
- the governance of the risks and responsibilities of the Organizational Units involved in the management process;
- the identification of the risks to which the Group is exposed, the methods for the measurement and stress testing processes and information flows summarizing monitoring activities;
- the annual assessment procedure on the adequacy of internal capital;
- the future assessment activities of capital adequacy linked to the strategic planning procedure.

The Corporate Bodies of the Bank, as Parent company of the Banca Farmafactoring S.p.A. Banking Group, define the risk governance and management model at a Group level, taking into consideration the specific business and the related risk profiles characterizing the entire Group, for the purpose of creating an integrated and consistent risk management policy. In such context, the Corporate Bodies of the Parent company perform the functions assigned to them not only in respect of the Company's business, but also in the evaluation of the Group's overall functioning and the risks to which it is exposed, engaging, in the most appropriate ways, the Corporate Bodies of the subsidiary in the choices involving risk management procedures and policies.

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

The head of the Risk Management, Compliance and AML Function is assigned, according to the principle of proportionality, the role of coordinating the underlying second-level control functions, divided into two specific organizational units: the Risk Management OU and the Compliance and AML OU.

The Function is within the system of internal control and organizationally is a staff function to the Chief Executive Officer and operates according to the established operating autonomy supporting the Chief Executive Officer.

The Risk Management Function has, inter alia, the responsibility of:

- cooperating with the Corporate Bodies in defining the overall risk management system;
- ensuring adequate risk management procedures by introducing and maintaining appropriate risk management systems to identify, measure, control and mitigate all relevant risks;
- ensuring the assessment of capital absorbed and relative adequacy, by defining the processes and procedures for managing every type of present and future risk type, taking into account the strategies and changes to the environment;
- supervising the functioning of the risk management process and verifying compliance thereto;
- monitoring the adequacy and effectiveness of the measures adopted to remedy deficiencies identified in the risk management system;
- submitting periodic reports to the Corporate Bodies on the activity carried out and advising them on the matter of risk management.

The management policies adopted for each risk category of the Banking Group risk category are reported below.

CREDIT RISK

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

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

Credit risk management policies

Organization

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

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

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

Management, measurement and control systems

The assessment of credit risk is part of an overall analysis of the capital adequacy of the Bank in relation to the risks connected with lending.

With this in mind, the Group uses the "Standardized" approach for the measurement of credit risk, as indicated in Bank of Italy Circular 285 *"Supervisory provisions for banks"* and Circular 286 *"Instructions for the preparation of regulatory reporting for banks and investment companies"*, both of December 17, 2013, and subsequent updates. This approach involves the division of the exposures into various portfolios according to the nature of the counterparty and the application of diversified weighted ratios to each portfolio.

In particular, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the specialized credit assessment agencies, ECAIs, or ECAs, to the individual States; for the "Supervised institutions" portfolio, the weighting depends on the rating of the State in which the supervised institution has its headquarters; for the "public sector entities" portfolio, the rules for weighting are the same as those for supervised institutions.

Starting from the reporting at June 30, 2013 the Banking Group adopted Dominion Bond Rating Service (DBRS) as the ECAI ratings agency.

The unsolicited rating of the Republic of Italy by DBRS is 'A low' and therefore the receivables exposure from the Public Administration fall in the Credit Quality Class of 2, with a risk weight equal to 50%.

The exposures of the Group are almost completely composed of receivables due from counterparties belonging to the Public Administration.

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

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

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

On the basis of the above methodology, the consolidated capital requirement for credit risk at December 31, 2014 is equal to €52,831 thousand.

Moreover the "Credit Regulation" describes the stages of the process which the regulations of the sector have identified as components of the credit process:
- background check;
- decision;
- disbursement;
- monitoring and review;
- dispute.

In order to identify the main risk factors, the principal activities carried out by the Bank are described as follows:
- receivables management only;
- non-recourse factoring;
- with recourse factoring.

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

Credit risk management, therefore, besides following internal corporate regulations must also abide by external regulations (Bank of Italy Circular 285 *"Supervisory provisions for banks"* and 286 *"Instructions for the preparation of regulatory reporting for banks and investment companies"*, and subsequent updates, with regard to concentrations of risk. In particular:
- a "large exposure" is defined as every position equal to or greater than 10% of Own Funds:
- for banking groups and banks not belonging to a banking group each risk-weighted position must be within the limit of 25% of Own Funds;

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

Furthermore, Banca Farmafactoring files a monthly report with the Central Credit Register (Bank of Italy Circular 139 of February 11, 1991 – 14th update of April 29, 2011 *"Central Credit Register. Instructions for Credit Institutions"*) providing information on the financial debt of the debtor over the course of time and on the agreed/utilized ratio (which expresses the financial commitment of the company and the debt margins that it has with the system).

Qualitative assessment of receivables

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

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

Performing receivables

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

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

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

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

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

Specifically, at December 31, 2014, the impairment test indicated an impairment loss of about €2 million, in line with the prior year.

Non-performing receivables

In accordance with IAS 39, and for purposes of an analytical evaluation, the Bank carried out an assessment of the financial assets classified as non-performing receivables in order to identify any objective impairment of individual positions.

Non-performing receivables of the Banking Group consist of non-performing receivables of Banca Farmafactoring, whose value, net of individual impairment losses, amounts to €2,936 thousand.

Credit risk mitigation techniques

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

Impaired financial assets

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

The "Exposures/Impaired assets" correspond to the sum of:
- Past due, for a net amount of €9,779 thousand;
- Restructured exposures, not applicable;
- Doubtful, for a net amount of €62 thousand;
- Non-performing, for a net amount of €2,936 thousand;

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

Past due exposures
These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2014 are past due more than 90 days.
In particular, exposures with central administrations and central banks, public sector entities and territorial entities, are considered past due when the debtor has not made any payment for any debt positions due to the bank for more than 90 days.

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

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

At December 31, 2014, the Group does not have any positions classified as restructured exposures.

Doubtful
These are exposures with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.
Doubtful receivables also include so-called "objective" doubtful receivables, that is, exposures that present the following conditions:

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

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

Non-performing

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

At December 31, 2014, the total of non-performing receivables, net of writedowns due to estimated impairment losses, amounts to €2,936 thousand, in line with the prior year.

This amount corresponds to the exposure with the debtor Fondazione Monte Tabor in liquidation and in a composition agreement with creditors, which, during 2013, made the payment for the first two distributions for a total of approximately €9.6 million.
After the agreement was recognized by the composition of creditors (approved by the meeting of creditors on March 19, 2012), for the principal portion as well as the late interest portion, which was nevertheless already completely written off, the Company decided not to make any provision on the receivables since the total of the collections that will derive from the agreement are in line with the outstanding amount of principal.

In 2014 another debtor and assignor were considered non-performing for an amount of approximately €570 thousand, which has not been written down because it is covered by guarantees. The other non-performing positions of €2.4 million were completely off against the provision account and their net book value is now zero.

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

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

Securitization transactions

At December 31, 2014 there are two securitization transactions open on health care receivables, structured by Banca IMI and Deutsche Bank and described in detail in Section 12.
In these securitization transactions the receivables are sold to special-purpose entities but are not derecognized as the sale does not constitute the transfer of the risks and the rewards of ownership.
All the risks and rewards of ownership thus remain with the Group and the relative securitization risk is comprised in the credit risk.

COUNTERPARTY RISK

Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions put in place with a specific counterparty have a positive value in the event of insolvency.
For Banca Farmafactoring, the counterparty risk is principally generated by repurchase agreements with Cassa Compensazione e Garanzia as the counterparty. The counterparty risk for repurchase agreements is measured by the simplified method.
In addition, derivative contracts are put in place to hedge the risk of fluctuations in interest rate: the standardized method measured the risk at a nil amount for 2014.

MARKET RISK

The Group measures market risk using the "Standardized" method, as outlined in Bank of Italy Circular 285. The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio.

The Banca Farmafactoring Banking Group does not conduct trading activities on financial instruments. At December 31, 2014, the only positions included in the regulatory trading portfolio are represented by derivative contracts on interest rates which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of "hedging instrument". The market risk recognized by the Group, therefore, refers to the market risk on positions relating to such derivative financial instruments.

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

The amount of derivative instruments put into place to mitigate the risk of fluctuations in interest rates is determined so that a part of the funding originally at variable rates can be rendered at fixed rates, correlating the amount of the hedging to the portion of funding used for financing the lending made at fixed rates: in this sense, consideration is given to the exposure of the receivables purchased, purchases in progress, the fixed rate implicit in the commissions and the flows of correlated exposure so as to achieve a matching of the hedged item (fixed rate on the outstanding balance) and the contracted rate on all the derivative transactions.
At December 31, 2014, the balance of derivative hedging transactions is equal to €30 million.

Hedging strategies follow the trend of the Euribor rates, the expectations expressed by the market and are to be compared to the structure of the funding used for financing typical business operations.

At December 31, 2014, the fair value of hedging instruments is negative for an amount of €46 thousand.

The fair value represents the value of the financial instrument. This value depends on the structure of the financial instrument and the structure of the market curves (rate curve and volatility curve) over time.

Every financial instrument structure can be separated or associated with one or more of the following listed below:

1) **fixed-rate component**, for which the cash flows generated by interest are calculated on the basis of the fixed rate, nominal amount and term. The fair value is equal to the sum of the discounted flows using the established discount factors;
2) **variable-rate component**, for which the forward rates are calculated on the basis of the discount factors curve. The cash flows of interest are estimated using the forward rates. The fair value is equal to the sum of the discounted cash flows.

At December 31, 2014, due to the trend recorded by the interest rate curve and the reduction in the amount of existing derivatives, there is an improvement compared to the data at the end of the prior year (the fair value of the hedging instruments at December 31, 2013 was a negative €543 thousand, with a positive impact on the income statement for €497 thousand). There is also a full correlation with the rates implicit in the lending transactions carried out during the same period.

The capital requirement for the position risk, at December 31, 2014 is computed using the Maturity Ladder Approach, as reported in Bank of Italy Circular 285.
This system for measuring interest rate risk calls for the calculation of the net position relating to each issue, and the subsequent distribution, separately for each currency, over a time frame corresponding to the remaining life.
This is given by the sum of the remaining positions and netted positions, the latter weighted as established by the regulation.
Consistently with the above, the reduced exposure to risk does not require the use of control instruments other than those dedicated to ordinary business operations.

INTEREST RATE RISK

For purposes of the assessment of interest rate risk, potentially associated with fluctuations in interest rates, the Bank is guided by the methodology contained in the prudential regulation (Attachment C – Bank of Italy Circular 285). This methodology is applied monthly, in order to record on a timely and continual basis any loss in the event of a market shock determined on the basis of annual changes in interest rates recorded during an observation period of six years, considering alternatively the first percentile (decrease) and the 99th percentile (increase) and ensuring that rates are not negative.

EXCHANGE RATE RISK

Exchange rate risk is represented by the exposure of the Banking Group to fluctuations in exchange rates, considering both positions in foreign currency and those that provide for indexation clauses linked to the trend in the exchange rates of a specific currency.
The Group's asset portfolio is entirely expressed in euros; accordingly, the risk connected with the volatility of foreign currencies is to be considered non-existent.

LIQUIDITY RISK

Liquidity risk is represented by the possibility that the Bank will be unable to fulfil its payment obligations due to the inability to access funds on the financial market, or limits that are present that restrict the disposal of assets. This risk is also represented by the inability to raise adequate new resources, in terms of amount and cost according to operating necessities, which would force the Bank to slow or halt the development of activities or sustain excessive funding costs to meet its obligations, with significant adverse impacts on the profits of its business.

Liquidity risk may be manifested through the following risk components:
• ***Liquidity Mismatch Risk:*** is the risk of mismatch between the amounts and/or the timing inflows and outflows.
• ***Liquidity Contingency Risk:*** is the risk that future unexpected events may require a materially larger amount of liquidity than the business currently requires in a scenario as a normal going concern. This risk may be generated by events such as failure to renew loans, the need to finance new activities, the difficulty in disposing of liquid assets or obtaining new loans in the event of a liquidity crisis.
• ***Market Liquidity Risk:*** is the risk of incurring losses on liquidating assets that would be considered liquid under normal market conditions and is forced to keep them in the absence of the market itself.
• ***Operational Liquidity Risk:*** is the risk of being unable to fulfill payment obligations due to errors, violations, interruptions or damages due to internal processes, persons or external events, while remaining solvent.
• ***Funding Risk:*** is the risk of incurring a loss due to the inability to draw from sources of financing at an economical cost to meet obligations and/or the possible increase in the costs of funding due to a change in rating (internal factor) and/or a wider gap in the credit spreads (external factor).

The Group, in accordance with Bank of Italy's regulation for prudential supervision, has adopted a risk management regulation and a Treasury and Finance Regulation aimed at maintaining a high degree of diversification, in order to reduce liquidity risk, and identifying the governance and control principles as well as the structures responsible for the operational and structural management of liquidity risk.

This internal regulation sets out:
• the criteria adopted for the management of liquidity risk, defined in relation to the specific operations of the Bank and the potential sources of liquidity risk;
• the operating procedures through which the Bank monitors this risk, which include a diversification of short-term assets (operational liquidity management) and medium-term assets (structural liquidity management);
• the criteria for defining and carrying out stress tests, aimed at measuring in quantitative terms the capacity of the Bank to meet potential adverse events that could affect the level of liquidity risk;
• the contingency funding plan in which the strategies and organizational and operating procedures are defined for the management of early warning, warning and crisis situations as well as the resulting responsibilities.

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

• separation between the processes for the management of liquidity and processes for the control of liquidity risk;
• development of the processes for the management and control of liquidity risk, consistently with the hierarchy structure of the bank and through a process of the delegation of powers;
• sharing of the decisions and clarity of responsibilities among management, control and operations bodies;
• conforming the management and monitoring processes of liquidity risk with prudential supervisory indications.

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

OPERATIONAL RISK

Operational risk is the risk of loss due to inadequacy or failures of procedures, caused by personnel and internal systems or as a result of external events. Falling in this category, among other, are fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk comprises legal risks but not strategic and reputational risk.
Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire category of risk.

In the Banking Group, the exposure to this category of risk is generated predominately by failures in the working process and in the organization and governance – human errors, malfunctioning of computer applications, inadequate organizational management and control – as well as any loss of human resources in key positions within corporate management. Exposures to operational risks deriving from external sources, instead, appear to be of negligible importance, partly in view of the mitigation tools adopted to meet these unfavorable events, such as the business continuity plan, data storage processes, back up instruments, insurance policies, etc.

The process adopted by the Group for the management and control of operational risks is founded on the principle of promoting a corporate culture for managing risk and defining the proper standards and incentives with the aim of adopting professional and responsible behavior, at all levels of operations as well as the design, implementation and management of an integrated system for operational risk management adequate in relation to the nature, operations, size and profile of risk.

A "mixed" type assessment model for operational risks is employed by the Group. Such model is based on assessments that are both qualitative, linked to the mapping of the processes, the risk activities and relative controls put in place, and quantitative, using the methodologies set out by Bank of Italy.

Within the framework of the controls put in place over the exposure to operational risk, the following specific risks are also monitored by the Bank:

• Money laundering risk, regarding the risk that counterparties of the Bank, whether financial, commercial, suppliers, partners, collaborators and consultants may be implicated in transactions that might potentially favor the laundering of cash coming from illegal or criminal activities;

• Compliance risk, concerning the risk of legal and administrative sanctions, significant financial losses or reputational losses due to failure to comply not only with laws and regulations but also with internal standards and conduct applicable to corporate activities. For this type of risk, a review is carried out annually of the related assessment method, developed for all activities falling within the Bank's legal scope of reference, according to a risk-based approach. In particular, for the relevant laws that do not call for the creation of specialized functions (e.g. privacy and workplace health and safety), the Compliance Function provides guidance *ex ante* to the Bank's structures and assesses *ex post* the adequacy of the organizational measures and the control activities adopted under the Compliance Risk Assessment method. As for the laws monitored by specialized functions, the Compliance Function carries out an indirect control by cooperating with these specialized functions in defining the compliance risk assessment methods in addition to mapping the risks and the relative controls (Compliance Risk Matrix).

For the calculation of the capital requirement on the operational risk, the Banking Group uses the Basic Indicator Approach - BIA, by applying a regulatory coefficient to an indicator of the volume of the Bank's operations (Relevant Indicator).

The Group also assesses operational risks in connection with the introduction of new products, activities, relevant processes and systems and mitigates the consequence of any operational risk that may arise through the preventive involvement of the corporate control functions and the drawing up of specific policies and regulations on various subjects and topics.
To control the above risks, the Group adopts *ad hoc* organizational models for the management of the risks regarding money laundering, safety and health in the workplace and information security.

RISKS OF THE OTHER COMPANIES

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

The three Special Purpose Entities (SPE) were set up for the securitization transactions structured by Banca IMI, Deutsche Bank and BayernLB and were included in the scope of consolidation because they meet the criteria set out in the IAS/IFRS standards which establish the obligation of consolidating a special purpose entity when, in the absence of an investment relationship, the company that prepares the financial statements, in substance, controls the special purpose entity.

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

Declarations by the Board of Directors, pursuant to art. 435 paragraph 1, letters e) and f) of Regulation (EU) 575/2013

The Chief Executive Officer of Banca Farmafactoring S.p.A., Massimiliano Belingheri, by mandate of the Board of Directors, declares pursuant to art. 435 paragraph 1, letters e) and f), Regulation (EU) 575/2013 that:

a) the risk management systems in place in the Banca Farmafactoring Banking Group described in the document Pillar III – Disclosure to the Public– year 2014, is adequate in relation to the profile and strategy of the entity;

b) in particular, this Section 1, "Risk management objectives and policies" of the cited document, describes, in summary, the overall risk profile of the Banca Farmafactoring Bank Group.

Information relating to the governance systems

NUMBER OF BOARD POSITIONS HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS OF BANCA FARMAFACTORING

The number of positions held by the members of the Board of Directors in other companies is summarized below:

Name	Position held in BFF	Qualification	Date of appointm.	Expiration of term of office	Number of other board positions
Messina Salvatore	Chairman	Independent	03.25.2015	Approval of financial statem. 12.31.2017	-
Fornari Luswerg Federico	Vice President	Non-executive	03.25.2015	Approval of financial statem. 12.31.2017	1 non-executive
Belingheri Massimiliano	Chief Executive Officer	Executive	03.25.2015	Approval of financial statem. 12.31.2017	-
Aliberti Giancarlo	Director	Non-executive	03.25.2015	Approval of financial statem. 12.31.2017	1 executive 3 non-executive
Cipparrone Gabriele	Director	Non-executive	03.25.2015	Approval of financial statem. 12.31.2017	1 executive 2 non-executive
Ferrero Daniele	Director	Non-executive Independent	03.25.2015	Approval of financial statem. 12.31.2017	2 executive 2 non-executive
Giusti Gaudiana	Director	Non-executive Independent	03.25.2015	Approval of financial statem. 12.31.2017	1 non-executive
Oliveri Elisabetta	Director	Non-executive Independent	03.25.2015	Approval of financial statem. 12.31.2017	1 executive 4 non-executive
Rabuffi Marco	Director	Non-executive	03.25.2015	Approval of financial statem. 12.31.2017	-

PROCESS FOR THE SELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THEIR EFFECTIVE KNOWLEDGE, COMPETENCES AND EXPERIENCE

The Board of Directors of Banca Farmafactoring S.p.A. is composed of nine members with various and sufficiently diversified competences among each other so that each member can effectively contribute to ensuring effective governance over risks in all of the areas of the Bank.

With regard to the policy for the selection of board members, the Regulation of the Board of Directors establishes that, besides the requisites of professionalism dictated by existing law, the directors of Banca Farmafactoring S.p.A. must also possess at least one of the following requisites:

a) adequate knowledge of the banking sector, of the dynamics and of the economic and financial system, of banking and financial regulations and, above all, the methodologies for the management and control of risks, acquired through various years of experience in administration, management and control in the financial sector;

b) experience gained in the management of direct operations to facilitate the sale, management and collection of receivables, particularly with entities providing health care services as well as with entities of the Public Administration;

c) entrepreneurial management and company organizational experience acquired through various years of experience in the administration, management or control of companies, or groups of relevant economic size or in the Public Administration;

d) ability to read and interpret economic and financial data acquired through various years of experience in administration and control of companies or professional activities or teaching in university;

e) international experience and knowledge of foreign markets gained through years of carrying out entrepreneurial or professional activities at foreign institutions or entities, companies or international groups.

The board is composed of independent, executive and non-executive directors.

Independent directors autonomously monitor corporate management, contributing to ensuring that it is conducted in the interests of the Bank and in a manner consistent with sound and prudent management objectives.

The number of independent directors is decided taking into consideration the total number of directors, the composition of any committees and, in any case, cannot be less than two, if the board is composed of seven members, at least three if it is composed of up to twelve members and at least four if it is composed of a higher number.

POLICY OF DIVERSITY ADOPTED IN THE SELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS, THE RELATIVE OBJECTIVES AND ANY TARGETS ESTABLISHED WITHIN THE FRAMEWORK OF SUCH POLICY, IN ADDITION TO THE DEGREE TO WHICH SUCH OBJECTIVES AND TARGETS HAVE BEEN REACHED

The Regulation of the Board of Directors states that its members must have diversified characteristics in terms of competences, experience, age, type, geographic origins and international projection, although not having fixed any specific objectives or targets.

RISKS COMMITTEE AND NUMBER OF MEETINGS

By resolution of the July 24, 2014 meeting of the Board of Directors of Banca Farmafactoring, the Risks Committee was formed pursuant to the provisions of Bank of Italy on corporate governance.

The Risks Committee provides support to the Board of Directors in the area of risks and the system of internal control, using outside experts whenever it deems necessary.

The Risks Committee particularly carries out the following activities:
a) with the contribution by the Nomination Committee (where formed), identifies and proposes the heads of the corporate control functions to be appointed;
b) examines the activity programs in advance (including the audit plan prepared by the Audit function) and the annual reports of the corporate control functions addressed to the Board of Directors;
c) offers evaluations and formulates opinions to the Board of Directors on the principles on which it should be kept informed: a) the internal control system and b) the corporate organization of the Bank and the Group
d) offers evaluations and formulates opinions to the Board of Directors on the requirements that should be observed by the corporate control functions, bringing to the Board of Directors' attention any weaknesses found and the consequent actions to be taken. To this end the Committee takes into account the proposals of the Chief Executive Officer;
e) contributes, with its evaluations and opinions, to the definition of the corporate policy on outsourcing the corporate control functions;
f)verifies that the corporate control functions correctly conform to the indications and guidelines established by the Board of Directors, and assists the latter in writing the coordination document required by Chapter VII of the New Prudential Supervision Provisions (the "Regulation of Corporate Bodies, of Control Functions and of Information Flows");
g) assesses the correct use of accounting principles in the preparation of the separate and consolidated financial statements, coordinating in this work with the board of statutory auditors.

With particular reference to the area of the management and the control of risks, the Risks Committee provides support to the Board of Directors in the following activities:

a) definition and approval of the strategic guidelines and governance policies of the risks.

As part of the Risk Appetite Framework (RAF), the Risks Committee conducts necessary activities for evaluation and proposal so that the Board of Directors, in conformity with what is established in the Provisions on Internal Control – included in the "Regulation of Corporate Bodies, of Control

Functions and of Information Flows" adopted by the Bank –, can define and approve the risk appetite and risk tolerance, including:
a) verification of the correct implementation of the risk strategies and governance policies and the RAF approved by the Board of Directors;
b) definition of the policies and processes for the evaluation of corporate activities, including periodical verification;
c) consistency as regards the profitability and the risks assumed in dealings with the clientele, compared to the business model and strategies defined in the area of risk.

Without prejudice to the responsibilities of the Remuneration Committee, the Risks Committee ascertains that the incentives underlying the compensation and incentive system of the Bank and the Group are consistent with the RAF.

Since its formation there have been four meetings of the Risks Committee.

DESCRIPTION OF THE FLOW OF INFORMATION ON RISKS ADDRESSED TO THE BOARD OF DIRECTORS

The representation of the flow of information on risks addressed to the Board of Directors, subject to evaluation by the Risks Committee:

Owner	Product Information Flows	Frequency	BoD/Risks Committee
Risk Management Function	Activity Plan	*annual*	✓
	Activity Report	*annual*	✓
	ICAAP	*annual*	✓
	Risk Management Report	*when issued*	*when issued*
	Tableau de Bord of the Risk Management Function (Risk Report)	*quarterly*	✓
	RAF and Risk Management Policy Update	*annual*	✓
Compliance Function	Activity Plan	*annual*	✓
	Compliance Report	*when issued*	*when issued*
	Tableau de Bord of the Compliance Function	*quarterly*	✓
	Annual Compliance Activity Report	*annual*	✓
AML Function	Inspection Report*	*monthly*	-
	Activity Report	*annual*	✓
Internal Audit Function	Activity Plan	*ann./pluriann.*	✓
	Audit Report	*when issued*	*when issued*
	Tableau de Bord of the Internal Audit Function	*quarterly*	✓
	ICAAP Audit Report	*annual*	✓
	Audit Report on Functions/Important Out-sourced Activities	*annual*	✓
	Audit Report on Remuneration and Incentive System**	*annual*	✓
	Annual Report on Internal Audit Activities	*annual*	✓
Supervisory Body	Supervisory Report	*half-yearly*	✓
Board of Statutory Auditors	Statutory Auditors' Opinions	*when issued*	✓
	Statutory Auditors' Reporting	*when issued*	✓

* This report is also sent to the Chairman of the BoD as the person who has responsibility for dubious transactions.
** Final recipient of the report is the shareholders' meeting.

Section 2. Scope of application

Qualitative disclosure

The disclosure obligations referred to in this document, as reported according to article 436 of European Regulation 575/2013, refer to the Banca Farmafactoring Banking Group, registered in the Register of Banking Groups, of which Banca Farmafactoring is the Parent company.

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. Generally, control exists when the company holds, directly or indirectly, more than half of the voting rights, considering also exercisable or convertible potential voting rights.
Subsidiaries also include special purpose entities in which the Group, in substance, holds the majority of the risks and rewards of their activities or those over which it exercises control. The existence of an equity investment in these entities is not relevant for this purpose.
All subsidiaries are consolidated line-by-line from the date the Group obtains control until such control ceases.
The consolidated financial statements and the notes thereto prepared by the companies consolidated line-by-line are drawn up in accordance with IAS/IFRS for purposes of inclusion in the consolidated financial statements.

The scope of consolidation relevant for purposes of the financial statements thus reflects the aggregation of the financial statements of the Parent company, Banca Farmafactoring S.p.A., Farmafactoring España S.A. (a wholly-owned subsidiary of Banca Farmafactoring S.p.A.) and three special purpose entities, FF Finance S.r.l, Farmafactoring SPV I S.r.l. and Farmafactoring SPV II S.r.l.
All balances and transactions between companies of the Banking Group have been eliminated on consolidation.

The scope of consolidation for regulatory requirement purposes is defined by Bank of Italy Circular 115 *"Instructions for the preparation of supervisory reporting on a consolidated basis"* of August 7, 1990, and subsequent updates, and Bank of Italy Circular 285 "Supervisory provisions for banks" of December 17, 2013, and subsequent updates".

The following chart describes the most important information regarding the companies in the Group.

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

(*) Type of relationship:
1 - majority of voting rights in the ordinary shareholders' meeting.
4 - other forms of control.

Quantitative disclosure

Banca Farmafactoring does not have any subsidiaries excluded from the scope of consolidation.

Section 3. Own funds

Qualitative disclosure

Own Funds represent the first line of defense against risks associated with overall financial activities and constitute the main parameter of reference for the assessment of capital adequacy.
The purpose of the regulatory requirements is to ensure that all banks have a minimum obligatory capitalization in relation to the risks assumed.

The Banking Group constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, also through its internal Risks Committee.
From the standpoint of Supervisory Regulations, the amount of capital required is determined on the basis of the current reporting regulations.

The determination of Own Funds, implemented, starting January 1, 2014, European Regulation 575/2013 relating to the new regulation harmonized for banks and investment companies, contained in the CRR community regulation *(Capital Requirements Regulation)* and in the European Directive CRD IV (Capital Requirement Directive) of June 26, 2013, on the basis of Bank of Italy Circular 285 *"Supervisory provisions for banks"* and 286 *"Instructions for the preparation of regulatory reporting for banks and investment companies"*, both of December 17, 2013.

These regulations include the standards set forth by the Basel Committee for banking regulations (known as the Basel 3 framework), whose implementation, pursuant to the Consolidated Law on Banking, is the responsibility of Bank of Italy, and define the ways with which the discretionalities attributed by community discipline to the national authorities were exercised.
The most important change for the Banking Group consists in the reclassification of the revaluation reserves formed upon first-time adoption of IFRS, included in Common Equity Tier 1 capital.

Own Funds are composed of Common Equity Tier 1 Capital (CET1), Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2) net of items to be deducted and IAS/IFRS prudential filters.

The main elements that form Own Funds of the Banking Group are computed in Common Equity Tier 1 Capital (CET1), and are the following:

- share capital paid-in;
- reserves (legal reserve, extraordinary reserve, retained earnings);
- profit for the year, portion undistributed;
- valuation reserves: actuarial gains/losses relating to defined benefit plans;
- valuation reserves relating to hedging derivatives;
- valuation reserves: special revaluation laws.

Items to be deducted are intangible assets.

In reference to the contents of Bank of Italy Circular 285 of December 17, 2013 – Section II, Paragraph 2, last paragraph, wherein it is stated that banks have the right "not to include unrealized gains or losses in any element of Own Funds relating to exposures with the central administrations classified in the "Available-for-sale financial assets" category of IAS 39 approved by the EU" (option allowed by Bollettino di Vigilanza No. 12 of December 2013, in the paragraph relating to "Regulation on Own Funds), on January 24, 2014 the Board of Directors of Banca Farmafactoring decided to exercise such option.

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

Own Funds of the Banking Group do not include capital items qualifying as Additional Tier 1 Capital (AT1) and Tier 2 Capital (T2).

GRUPPO BANCARIO
BANCA FARMAFACTORING

Quantitative disclosure

Composition of Own Funds

Item/Amount	Total 12.31.2014	Total 12.31.2013
A. Common Equity Tier 1 Capital (CET1) before prudential filters	262,106	186,401
of which grandfathered CET1 instruments		
B. CET1 prudential filters (+/-)		
C. CET1 gross of items to be deducted and effects of transitional adjustments (A +/- B)	262,106	186,401
D. Elements to be deducted from CET1	(2,053)	(1,123)
E. Transitional adjustments – Effect on CET1 (+/-), including minority interests subject to transitional adjustments		
F. Total Common Equity Tier 1 Capital (CET1) (C - D +/- E)	260,053	185,279
G. Additional Tier 1 Capital (AT1) gross of items to be deducted and effects of transitional adjustments		
of which grandfathered AT1 instruments		
H. Elements to be deducted from AT1		
I. Transitional adjustments – effect on AT1 (+/-), including qualifying instruments issued by subsidiaries and computable in AT1 due to transitional provisions		
L. Total Additional Tier 1 Capital (AT1) (G - H +/- I)		
M. Tier 2 Capital (T2) gross of items to be deducted and effect of transitional adjustments		
of which grandfathered T2 instruments		
N. Elements to be deducted from T2		
O. Transitional adjustments – Effect on T2 (+/-), including qualifying instruments issued by subsidiaries and computable in T2 due to transitional provisions		
P. Total Tier 2 Capital (T2) (M - N +/- O)		
Q. Total Own Funds (F + L + P)	260,053	185,279

Own Funds disclosure template

Own Funds Disclosure	(A) Amount at disclos. date	(B) Regulation (EU) 575/2013 article reference	(C) Amounts subject to pre-Regulation (EU) 575/2013 treatment
1. Capital instruments and related share premium reserves	130,900	26, paragrafo 1, 28	
2. Retained earnings	29,904	26, paragrafo 1, lettera c)	
3. Accumulated other comprehensive income and other reserves	25,375	26, paragrafo 1, lettera d), e)	
5a. Profit for the year independently reviewed, net of any foreseeable expenses or dividends	75,927	26, paragrafo 2	
6. Common Equity Tier 1 Capital before regulatory adjustments	**262,106**		
Common Equity Tier 1 Capital (CET1): regulatory adjustments			
8. Intangible assets (net of related tax liability)	(2,053)	36, paragrafo 1, lettera b)	
28. Total regulatory adjustments to Common Equity Tier 1 Capital (CET1)	**(2,053)**		
29. Common Equity Tier 1 Capital (CET1	**260,053**		
Additional Tier 1 Capital (AT1): instruments			
45. Tier 1 Capital (T1 = CETI + AT1)	**260,053**		
Tier 2 Capital (T2): instruments and accruals			
58. Tier 2 Capital (T2)	**0**		
59. Total capital (TC = T1 + T2)	**260,053**		
60. Total risk-weighted assets	**947,139**		
61. Common Equity Tier 1 Capital	27.5%	92, paragrafo 2, lettera a)	
62. Tier 1 Capital	27.5%	92, paragrafo 2, lettera b)	
63. Total Capital	27.5%	92, paragrafo 2, lettera c)	
Institution specific buffer requirement (CET1 according to article 92, paragraph 1, letter a), capital conservation and countercyclical buffer requirements, systemically important institution buffer	23,678	CRD articolo 129	
65. of which: capital conservation buffer requirement	23,678		
68. Common Equity Tier 1 Capital available to meet buffers	27.5%		

Reconciliation between accounting and regulatory balance sheet, with transitional Own Funds items

Items of Equity	Total
Share capital	130,900
Share premium	
Reserves	51,482
Equity instruments	
(Treasury shares)	
Valuation reserves:	
- Available-for-sale financial assets	238
- Property, plant and equipment	
- Intangible assets	
- Hedges of net investments in foreign subsidiaries	
- Cash flow hedges	(27)
- Foreign exchange differences	
- Non-current assets held for sale	
- Actuarial gains/losses relating to defined benefits plans	1
- Share of valuation reserves from investments accounted for using the equity method	
- Special revaluation laws	3,823
Profit for the year attributable to owners of the parent and non-controlling interests	124,378
Equity	**310,794**
Dividends	(48,450)
Non-eligible minority interests	
CET1 before prudential filters, transitional adjustments and deductions	262,344
Prudential filters	
Transitional adjustments	(238)
Deductions	(2,053)
CET1	**260,053**
Own Funds	**260,053**

Section 4. Capital requirements

Qualitative disclosure

The Banking Group adopted appropriate corporate governance and adequate management and control mechanisms for the purpose of dealing with the risks to which it is exposed; such safeguards are comprised in the management and internal control system, with the aim of ensuring a management inspired by efficiency, effectiveness and fairness principles, covering every type of business risk consistently with the features, size and complexity of its business.

The Banking Group constantly evaluates its capital structure, developing and using techniques for monitoring and managing regulated risks, in addition to having recourse to the internal Risks Committee charged with overseeing such risks.
From the standpoint of supervisory regulations, capital absorption is determined according to current reporting requirements.

The Tier 1 Capital Ratio is the ratio of Tier 1 Capital to the amount of Risk-Weighted Assets.
The Total Capital Ratio is the ratio of Total Own Funds to the amount of Risk-weighted Assets.
In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – *"The Financial Statements of Banks: layout and preparation"*, the amount of risk-weighted assets is determined as the product of the total of prudential capital requirements and 12.5 (the inverse of the minimum obligatory ratio equal to 8%).

Beginning in 2013 Banca Farmafactoring adopted Dominion Bond Rating Service (DBRS) as the reference ECAI ratings agency.
The unsolicited rating assigned to the Republic of Italy by DBRS is "A low" and therefore the receivables due from the Public Administration fall into Credit Rating Class 2, with a weighting equal to 50%.

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

Pillar I – Capital adequacy to meet the typical risks associated with financial activities

From the standpoint of operations, the absorption of risks is calculated using various methods:
- credit risk → standardized approach;
- counterparty risk → standardized approach;
- operational risk → basic indicator approach;
- market risk → standardized approach.

Credit risk

The application of the Standardized approach involves the division of the exposures into various portfolios based upon the nature of the counterparty, and the application of diversified weighted coefficients to each portfolio.
In particular, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the (ECAIs), or Export Credit Agencies (ECAs), to the individual States; for the "supervised institutions" portfolio, the weighting depends on the rating of the State in which the supervised institution has its headquarters; for the "public sector entities" portfolio, the rules for weighting are the same as those for supervised institutions.
With regard to the reporting of Own Funds and capital requirements, the credit assessment agency (ECAI) for exposures to central administrations and central banks recognized by Banca Farmafactoring is "DBRS", with the "Unsolicited" type of rating.

For the calculation of credit risk, the Bank applies the following weighting factors established by Bank of Italy's regulation on Prudential Supervision:
- 0% for receivables from central administrations and central banks;
- 20% for receivables from territorial entities with offices in a member State of the European Union denominated and financed in the local currency;
- 50% for receivables from the Public Administration (which include those from AOs in the National Health System and ASLs) except for exposures with an original term equal to or less than three months for which a weighting is applied of 20%;
- 50% for receivables from supervised institutions except for exposures with an original term equal to or less than three months for which a weighting is applied of 20%;
- 100% for receivables from the Public Administration of countries in Credit Quality Class 3;
- 100% for receivables from private debtors;
- 100% for property, plant and equipment, investments and other assets;
- 150% for past due receivables and loans.

The non-recourse receivables purchased by Farmafactoring España are weighted at 20% since the counterparties of reference of such exposures are represented by the *"Comunidad"* (the Regions) and not by the entities of the Public Administration.
Receivables from the Portuguese health service are weighted at 100% since the country rating is Credit Rating Class 3.

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

Capital requirement = 8% RWA

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

Counterparty risk

Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions put in place with a specific counterparty have a positive value in the event of insolvency.
For Banca Farmafactoring, the counterparty risk is principally generated by repurchase agreements with the counterparty Cassa Compensazione e Garanzia. The counterparty risk in repurchase agreements is measured using the simplified approach.
Moreover, the counterparty risk is represented only by derivative contracts put in place to hedge the risk of fluctuations in the interest rate: the application of the "Standardized" approach shows a nil amount for 2014.

Operational risk

The Group uses the "Basic" indicator approach to measure operational risk: the capital requirement is determined by applying a 15% coefficient to the three-year average of the relevant indicator calculated on the items of the financial statements for the last three years, in accordance with European Regulation 575/2013.

Market risk

The Group measures market risk using the "Standardized" method. The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio. At December 31, 2014, the only positions included in the regulatory trading portfolio are represented by derivative contracts on interest rates which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of "hedging instrument".

Pillar II –The ICAAP Summary

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

The Banking Group presents the "ICAAP summary" by April 30, 2015 to Bank of Italy showing the updated risk management system for the determination of the adequacy of capital.
The major types of risk considered relevant under Pillar II are the following:

• Concentration risk: is the risk associated with the concentration of relationships on the individual entities in the National Health System and the Public Administration.
• Interest rate risk: is the risk of fluctuations in the basic indexed rates affecting the assets and liabilities in the banking book.
• Liquidity risk and excessive financial leverage: is the risk of the inability to access funds on the financial market or limits that are present and restrict the disposal of assets or the risk of excessive financial leverage.

• Strategic and country risk: is the current or future risk of an impact on earnings or capital arising from changes in the operating environment or adverse corporate decisions, improper implementation of decisions, lack of responsiveness to changes in the business environment; this also includes the country risk in respect of potential losses caused by events occurring in a country other than Italy.
• Reputational risk: is the risk identified by the negative perception of the Banking Group's image on the part of stakeholders such as clients, counterparties, shareholders, employees and regulatory authorities.

Capital requirement for credit risk and counterparty risk

		Credit risk			Counterparty risk		
Portfolio/Exposure	Weighting factors	Non-weighted exposure	Weighted exposure	Capital require-ment	Non-weighted exposure	Weighted exposure	Capital require-ment
Exposures to central administrations and central banks *Credit rating class: 2*	0%	1,504,990	0	0			
Exposures to territorial entities *Credit rating class: 2*	20%	330,651	66,130	5,290			
Exposure to public sector entities *Credit rating class: 2* *Credit rating class: 3*	20%	106,612	21,322	1,706			
	50%	927,272	463,636	37,091			
	100%	21,669	21,669	1,734			
Exposures to supervised institutions *Credit rating class: 2*	20%	40,272	8,055	644			
	50%	2,270	1,135	91			
Exposure to companies and other parties *Credit rating class: no rating*	100%	45,761	45,761	3,661	165	165	13
Past-due exposure	150%	12,668	19,002	1,520			
	100%	110	110	9			
Equity instruments exposure	100%	23	23	2			
Other exposures *Credit rating class: no rating*	0%	3	0	0			
	100%	13,377	13,377	1,070			
Total		**3,005,678**	**660,220**	**52,818**	**165**	**165**	**13**

Capital requirement for market risks

	RWA	Capital requirement
Regulatory trading portfolio		
Position risk – OTC derivative contracts	1,175	94
Concentration risk	0	0
Entire portfolio		
Regulatory risk	0	0
Currency risk	0	0
Commodity risk	0	0
Capital requirements for market risks	***1,175***	***94***

Capital requirement for operational risks

	Weighted Exposure - RWA	Capital requirement
Operational risk	*285,579*	*22,846*

Capital ratios

Item/Amounts	Total 12.31.2014
C.2 Common Equity Tier 1 Capital/Risk-weighted assets (CET 1 capital ratio) (%)	27.5%
C.3 Tier 1 Capital/Risk-weighted assets (Tier 1 capital ratio) (%)	27.5%
C.4 Total Own Funds/ Risk-weighted assets (Total capital ratio) (%)	27.5%

Section 5. Exposure to counterparty risk

Qualitative disclosure

Counterparty risk represents a particular type of credit risk, which generates a loss if the transactions put in place with a specific counterparty have a positive value in the event of insolvency.
The risk, for the Group, is principally generated by repurchase transactions with Cassa Compensazione e Garanzia as the counterparty. To measure the counterparty risk in repurchase transactions the simplified method is used so that the part of exposure covered by collateral is assigned a weighting factor that corresponds to the weighting factor assigned to the instrument used as collateral.
At December 31, 2014 there are repurchase transactions outstanding with the counterparty Cassa Compensazione e Garanzia.

For the Group, the counterparty risk is also represented by derivative contracts put in place to hedge the risk of fluctuations in the interest rate: the application of the "Standardized" approach shows a nil amount for 2014.

At December 31, 2014, the only derivative positions are represented by contracts on interest rates. These derivatives comprise €30 million included in the regulatory trading portfolio even though used exclusively for hedging interest rate risk relating to the purchase of non-recourse receivables, and €55 million in the hedging portfolio.

There were no credit derivatives at December 31, 2014.

As reported in the previous schedules, the reduced exposure to counterparty risk does not require the use of additional control instruments compared to those already used in ordinary operations. In 2014 the fair value of derivative instruments in the trading portfolio and the banking portfolio was negative, thus, for this type of instruments, the counterparty risk is nil.

Quantitative disclosure

Repurchase transactions: protected amount

Regulatory portfolio	Exposure without mitigation of credit risk	Real financial guarantees – Simplified method	Guarantee	Exposure post mitigation of credit risk
SFT transactions	592,300,900	592,135,997	-	164,903
Total	592,300,900	592,135,997	-	164,903

At December 31, 2014 the capital requirements relating to repurchase transactions amount to approximately €13 thousand while those regarding trading and hedging derivative contracts is equal to zero, compared to approximately €8 thousand in 2013, referring only to derivatives in the trading portfolio.

Financial derivatives: gross positive fair value – breakdown by product

Underlyings/ Derivative types	Positive fair value			
	12.31.2014		12.31.2013	
	Over the counter	Clearing house	Over the counter	Clearing house
A. Regulatory trading portfolio			**5**	
a) Options				
b) Interest rate swaps			5	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
B. Banking portfolio – hedging derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
C. Banking portfolio – other derivatives				
a) Options				
b) Interest rate swaps				
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
f) Futures				
g) Other				
Total			**5**	

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

Contracts not included in netting agreements	Govern. and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount			30,000				
- positive fair value							
- negative fair value			46				
- future exposure							
2) Equity securities and share indexes							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
3) Currency and gold							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
4) Other instruments							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							

OTC financial derivatives – banking portfolio: notional amounts, positive and negative gross fair value by counterparty - contracts not included in netting agreements

Contracts not included in netting agreements	Govern. and central banks	Other public sector entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates							
- notional amount			55,000				
- positive fair value							
- negative fair value			47				
- future exposure							
2) Equity securities and share indexes							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
3) Currency and gold							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
4) Other instruments							
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							

Section 6. Credit risk adjustments

Qualitative disclosure

Credit risk represents the possibility of incurring losses due to the counterparty's default and insolvency. It is linked to the possibility that an unexpected movement in the creditworthiness of the counterparty, towards which an exposure exists, generates a corresponding decrease in the value of the credit position.

In accordance with the provisions of Bank of Italy Circular 262 of December 22, 2005 – *"The Financial Statements of Banks: layout and preparation"*, and subsequent updates" whose definitions are established by the Regulatory Reporting in force and by the Regulatory Reporting in force defined in Bank of Italy Circular 272 of July 30, 2008 *"Matrix Accounts"*, and subsequent updates, the Group has divided its receivables and loans between "performing" and "impaired".

"Performing" assets include:
• **Past due exposures not impaired.** Exposures past due more than 90 days, which are not considered impaired according to supervisory regulations, and exposures that are past due and/or over the limit by not more than 90 days, as defined in Bank of Italy Circular 272 of July 30, 2008, *"Matrix Accounts"*, and subsequent updates".
• **Other exposures**.

"Impaired" assets include:

• **Past due exposures.** These are exposures with central administrations and central banks, territorial entities, public sector entities, non-profit entities and companies which at December 31, 2014 are past due more than 90 days.
• **Restructured exposures.** These are exposures for which a bank, owing to the deterioration of the economic and financial conditions of the debtor, agrees to modify the original contract terms which give rise to a loss.
• **Doubtful.** These are exposures with parties that are in temporary situations of objective difficulty which are expected to pass within a reasonable period of time.
Doubtful receivables also include so-called "objective" doubtful receivables, that is, exposures that present the following conditions:
- do not belong to the "central administrations and central banks", "territorial entities" and "public sector entities" portfolios;
- are past due on a continuing basis more than 270 days;
- the total amount of past due receivables represents a portion equal to at least 10% of the entire exposure;

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

With regard to the method adopted in determining accounting impairment adjustments, Banca Farmafactoring has carried out an analysis of its receivables and loans portfolio for the purpose of identifying any impairment of its financial assets.

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

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

Two different valuation approaches have been adopted depending on the classification of the exposure.
As for non-performing receivables, through internal valuations and external legal opinions on the individual credit positions, the Bank determined the probable impairment losses to be recorded.

With regard to performing receivables, as in previous years, at the date of the interim and year-end financial statements, the Bank, in accordance with IAS 39, carried out a collective impairment test of performing receivables in order to monitor the quantitative content.

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

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

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

Quantitative disclosure

Composition of financial assets by portfolio and credit quality (carrying amount)

	Banking Group						Other companies		
Portfolio/Quality	Non-performing	Doubtful	Restructured exposures	Impaired Past due	Not impaired Past due	Other Assets	Imp. Past due	Other Assets	Total
1. Financial assets held for trading									
2. Available-for-sale financial assets						370,156			**370,156**
3. Held-to-maturity financial assets						955,932			**955,932**
4. Due from banks						77,389		20,337	**97,726**
5. Due from customers	2,936	62		9,779	255,287	1,286,892			**1,554,957**
6. Financial assets measured at fair value through profit or loss									**0**
7. Financial assets held for sale									**0**
8. Hedging derivatives									
Total 12.31.2014	**2,936**	**62**		**9,779**	**255,287**	**2,690,369**		**20,337**	**2,978,771**
Total 12.31.2013	**2,368**	**195**		**5,803**	**180,745**	**1,147,661**		**207,747**	**1,544,519**

Composition of credit exposures by portfolio and credit quality (gross and net amounts)

Portfolio/Quality	Impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific impair. losses	Net exposure	Gross exposure	Portfolio impair. loss	Net exposure	
A. Banking Group							
1. Financial assets held for trading							
2. Available-for-sale financial assets				370,156		370,156	370,156
3. Held-to-maturity financial assets				955,932		955,932	955,932
4. Due from banks				77,389		77,389	77,389
5. Due from customers	14,676	1,899	12,778	1,544,848	2,668	1,542,180	1,554,957
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
Total A	**14,676**	**1,899**	**12,778**	**2,948,325**	**2,668**	**2,945,657**	**2,958,434**
B. Other companies included in consolidation							
1. Financial assets held for trading							
2. Available-for-sale financial assets							
3. Held-to-maturity financial assets							
4. Due from banks				20,337		20,337	20,337
5. Due from customers							
6. Financial assets measured at fair value through profit or loss							
7. Financial assets held for sale							
8. Hedging derivatives							
Total B				**20,337**		**20,337**	**20,337**
Total 12.31.2014	**14,676**	**1,899**	**12,778**	**2,968,662**	**2,668**	**2,965,994**	**2,978,771**
Total 12.31.2013	**11,259**	**2,892**	**8,367**	**1,538,125**	**1,973**	**1,536,152**	**1,544,519**

Distribution by geographical area of credit exposures with banks and with customers by principal type of exposure

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net expos.	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
A. On-balance sheet exposures										
A.1 Non-performing										
A.2 Doubtful										
A.3 Restructured exposures										
A.4 Past due exposures										
A.5 Other exposures	74,718		2,671							
Total A	**74,718**		**2,671**							
B. Off-balance sheet exposures										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures	22									
Total B	**22**									
Total (A+B) 2014	**74,740**		**2,671**							
Total (A+B) 2013	**116,520**		**1,704**							

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
A. On-balance sheet exposure										
A.1 Non-performing	2,936	1,883								
A.2 Doubtful	62									
A.3 Restructured exposures										
A.4 Past due exposures	9,779	16								
A.5 Other exposures	2,598,990	2,638	269,278	30						
Total A	**2,611,767**	**4,537**	**269,278**	**30**						
B. Off-balance sheet exposure										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures	11,280									
Total B	**11,280**									
Total (A+B) 2014	**2,623,047**	**4,537**	**269,278**	**30**						
Total (A+B) 2013	**1,199,666**	**4,865**	**46,152**							

Distribution by segment or by type of counterparty of credit exposures with customers on and off-balance sheet (carrying amount)

Exposures/Counterparties	Governments			Other public sector entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposure						
A.1 Non-performing				110	576	
A.2 Doubtful						
A.3 Restructured exposures						
A.4 Past due exposures	5,247	9		3,284	5	
A.5 Other exposures	1,435,839		179	1,386,763		2,446
Total A	**1,441,086**	**9**	**179**	**1,390,157**	**581**	**2,446**
B. Off-balance sheet exposure						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures						
Total B						
Total (A+B) 2014	**1,441,086**	**9**	**179**	**1,390,157**	**581**	**2,446**
Total (A+B) 2013	**93,312**		**20**	**1,113,514**	**1,580**	**1,952**

Exposures/Counterparties	Financial companies			Insurance companies		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposure						
A.1 Non-performing						
A.2 Doubtful						
A.3 Restructured exposures						
A.4 Past due exposures						
A.5 Other exposures	13,588		1			
Total A	**13,588**		**1**			
B. Off-balance sheet exposure						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures	11,280					
Total B	**11,280**					
Total (A+B) 2014	**24,868**		**1**			
Total (A+B) 2013	**28,949**					

Exposures/Counterparties	Non-financial companies			Other entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. On-balance sheet exposure						
A.1 Non-performing	427	851		2,400	456	
A.2 Doubtful				62		
A.3 Restructured exposures						
A.4 Past due exposures	623	1		625	1	
A.5 Other exposures	23,701		38	8,376		5
Total A	**24,751**	**852**	**38**	**11,463**	**457**	**5**
B. Off-balance sheet exposure						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures						
Total B						
Total (A+B) 2014	**24,751**	**852**	**38**	**11,463**	**457**	**5**
Total (A+B) 2013	**2,421**	**914**		**7,622**	**398**	**0**

Time breakdown by contractual residual maturity of financial assets

Items/Maturity	on demand	1 to 7 days	7 to 15 days	15 days to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	unspec. maturity
Balance sheet assets	**443,106**	**8,931**	**23,765**	**20,324**	**216,745**	**408,264**	**1,030,573**	**823,321**	**2,936**	**919**
A.1 Government securities	276		22,042		119,679	91,690	574,300	498,795		
A.2 Other debt securities										
A.3 Units in investment funds										
A.4 Loans	442,830	8,931	1,723	20,324	97,066	316,574	456,273	324,526	2,936	919
- due from banks	*96,807*									*919*
- due from customers	*346,022*	*8,931*	*1,723*	*20,324*	*97,066*	*316,574*	*456,273*	*324,526*	*2,936*	

Credit exposures with customers for receivables and loans: change in total impairment losses

Source/Category	Non-performing	Doubtful	Restructured exposures	Impaired Past due
A. Beginning total impairments losses	**2,267**	**0**		**625**
- of which: receivables sold but not derecognized				
B. Increases	**56**	**1**		**675**
B.1 impairment losses	56	1		670
B.1 *bis* losses on sale				
B.2 transfer from other impaired exposures	0			1
B.3 other increases				4
C. Decreases	**441**	**1**		**1,283**
C.1 impairment reversals				
C.2 impairment reversals from collections	441			0
C.2 *bis* gains on sale				
C.3 derecognitions				
C.4 transfer to other impaired exposures		1		
C.5 other decreases		0		1,283
D. Ending total impairments losses	**1,883**	**0**		**16**
- of which: exposures sold but not derecognized				

Section 7. Unencumbered assets

Qualitative disclosure

Disclosure of encumbered and unencumbered assets by banks is required by Bank of Italy Circular 285, in the manner established by the European Banking Association guidelines of June 27, 2014. In particular, the purpose of the required disclosure is to assess the entities' recourse to types of secured funding (for example, guaranteed bank bonds, repurchase agreements, credit lines from central banks).

The entities disclose information on encumbered and unencumbered assets on a consolidated level by product, taking into account the instructions specified in Appendix XVII of the Commission Implementing Regulation (EU) 2015/79 issued by the Commission of the European Union. Encumbered assets are those used as collateral, subject to limitations on withdrawal or otherwise reserved to improve credit (credit enhancement).

Encumbered assets in the Banca Farmafactoring Banking Group's operations refer to the following:

- Collateralized financing operations, including refinancing operations with the Eurosystem through participation in the ECB's Open Market operations and repurchase transactions mainly with Cassa Compensazione e Garanzia;

- Assets underlying securitization transactions where the financial assets are not derecognized;

- Guarantee funds and initial margins placed with the clearing systems and central counterparties.

Quantitative disclosure

Model A – Disclosure about encumbered assets recognized in the financial statements

	Encumbered		Unencumbered	
Type	Carrying amount	Fair Value	Carrying amount	Fair Value
1. Cash and cash balances		X	3	X
2. Debt securities	1,012,807	1,013,262	310,536	310,917
3. Equity securities			23	23
4. Loans	255,762	X	1,376,651	X
5. Other financial assets		X	63,158	X

"Other financial assets" refer to the following aggregates in the financial statements:
- approximately €17.5 million to "Other assets"
- approximately €30.9 million to "Tax assets"
- approximately €2 million to "Intangible assets"
- approximately €12.7 million to "Property, plant and equipment"

The entire amount of approximately €63.2 million is considered unencumbered.

Model B – Collateral received by the reporting institution

At December 31, 2014 there was no collateral received.

Model C – Encumbered assets/collateral received and associated liabilities

Type	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
1. Deposits – Repurchase agreements	595,034	592,301
2. Collateralized deposits other than repurchase agreements with Central Banks	420,000	420,000
3. Collateralized deposits other than repurchase agreements	157,299	242,685
4. Other sources of collateral		13,584

As seen in the above models, the Group holds the following types of encumbered assets:

1. High credit quality debt securities issued by the Italian State encumbered as part of secured funding transactions (refinancing operations with the ECB and repurchase agreements);
2. Receivables due from the ASLs sold and not derecognized as part of securitization transactions, since the risks and rewards are not transferred;
3. Guarantee funds and initial margins placed with the clearing systems and central counterparties.

In particular, with regard to the first point, in 2014, after its transformation into a Bank, effective July 3, 2013, the Group continued to diversify its sources of funding and purchased government securities and put in place refinancing operations with the Eurosystem and repurchase transactions mainly with Cassa Compensazione e Garanzia through the MTS platform. The transactions constitute about 80% of the entire amount of encumbered assets.
At December 31, 2014 repurchase transactions were outstanding for a carrying amount of approximately €592.4 million, with Cassa di Compensazione e Garanzia as the counterparty.
Moreover, the government securities portfolio was refinanced for a nominal amount of €420 million in ECB auctions.

With regard to the second point, encumbered loans in securitization transactions on health care receivables sold and not derecognized amount to €242.6 million, and refer to the following:

• securitization transaction structured with Banca IMI in which the receivables were sold to the special purpose entity FF Finance S.r.l. and the assets were not derecognized. With regard to this transaction, the carrying amount net of impairment adjustments to the value of the receivables sold and not derecognized totals €20,981 thousand;

• securitization transaction structured with Deutsche Bank. Similarly to the transaction with FF Finance S.r.l., receivables were sold to the special purpose entity Farmafactoring SPV I S.r.l. and the assets were not derecognized. With regard to this transaction, the carrying amount net of impairment adjustments the value of the receivables sold and not derecognized totals €221,704 thousand.

The entire amount of encumbered assets refers to the Parent company, since the subsidiary Farmafactoring España does not have any collateralized assets or assets hedged or credit enhancements.

Section 8. Use of ECAIs

Qualitative disclosure

The Group uses the "Standardized" approach for the measurement of credit risk, as indicated in Bank of Italy Circular 285 *"Supervisory provisions for banks"* and Circular 286 *"Instructions for the preparation of regulatory reporting for banks and investment companies"*, both of December 17, 2013, and subsequent updates. This approach involves the division of the exposures into various portfolios based on the nature of the counterparty and the application of diversified weighted coefficients to each portfolio.
In particular, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by the specialized credit assessment agencies, ECAIs, or ECAs, to the individual States; for the "supervised institutions" portfolio, the weighting depends on the rating of the State in which the supervised institution has its headquarters; for the "public sector entities" portfolio, the rules for weighting are the same as those for supervised institutions.

Starting from the reporting at June 30, 2013 the Banking Group adopted Dominion Bond Rating Service (DBRS) as the ECAI ratings agency, with the "Unsolicited" type of rating.

The unsolicited rating of the Republic of Italy by DBRS is 'A low' and therefore the receivables exposure from the Public Administration fall in the Credit Rating Class of 2, with a risk weight equal to 50%.
The exposures of the Group are almost completely composed of receivables due from counterparties belonging to the Public Administration.

The following is a comparison between the credit quality ratings and the DBRS ratings:

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

Quantitative disclosure

The distribution of the exposures of the Banking Group, subject of credit risk according to the standardized method, by credit quality rating and by regulatory class of activity are presented below.

Portfolio/Exposure	Weighting factors	Credit risk		
		Non-weighted exposure	Weighting factors	Non-weighted exposure
Exposures to central administrations and central banks *Credit rating class: 2*	0%	1,504,990	0	0
Exposures to territorial entities *Credit rating class: 2*	20%	330,651	66,130	5,290
Exposure to public sector entities *Credit rating class: 2* *Credit rating class: 3*	20%	106,612	21,322	1,706
	50%	927,272	463,636	37,091
	100%	21,669	21,669	1,734
Exposures to supervised institutions *Credit rating class: 2*	20%	40,272	8,055	644
	50%	2,270	1,135	91
Exposure to companies and other parties *Credit rating class: no rating*	100%	45,761	45,761	3,661
Past-due exposure	150%	12,668	19,002	1,520
	100%	110	110	9
Equity instruments exposure	100%	23	23	2
Other exposures *Credit rating class: no rating*	0%	3	0	0
	100%	13,377	13,377	1,070
Total		**3,005,678**	**660,220**	**52,818**

Section 9. Exposure to market risk

Qualitative disclosure

The Group measures market risk using the "Standardized" method. The regulation identifies and regulates the treatment of the various types of market risk in reference to the regulatory trading portfolio.
At December 31, 2014, the only positions included in the regulatory trading portfolio are represented by derivative contracts on interest rates which, even though used exclusively for hedging interest rate risk relating to activities for the purchase of non-recourse receivables, do not fall under the accounting meaning of "hedging instrument".
The capital requirement relating to these positions amounts to approximately €94 thousand.

Quantitative disclosure

Capital requirements for market risks

	Weighted Exposure - RWA	Capital requirement
Regulatory trading portfolio		
Position risk – OTC derivative contracts	1,175	94
Concentration risk	0	0
Entire portfolio		
Regulatory risk	0	0
Currency risk	0	0
Commodity risk	0	0
Capital requirements for market risks	***1,175***	***94***

Section 10. Operational risk

Qualitative disclosure

Operational risk is the risk of loss due to inadequacy or failures of procedures, caused by personnel and internal systems or as a result of external events. Falling in this category, among other, are fraud, human error, business interruption, system failure, breach of contracts and natural disasters; operational risk comprises legal risks but not strategic and reputational risk.
Operational risk therefore refers to various types of events that would not be significant individually unless analyzed together and quantified for the entire category of risk.

For the calculation of the capital requirement on operational risk, the Banking Group uses the Basic Indicator Approach - BIA, by applying a regulatory coefficient to an indicator of the volume of the Bank's operations (Relevant Indicator).

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

To control the above risks, the Group adopts customized organizational models for the management of the risks regarding money laundering, safety and health in the workplace and information security.

Quantitative disclosure

On the basis of the above methodology, the capital requirement for operational risks at December 31, 2014 is equal to €22,846 thousand.

Section 11. Exposure to interest rate risk on positions not included in the trading book

Qualitative disclosure

In order to assess interest rate risk, potentially linked to fluctuations in interest rates, the Bank adopts the methodology set out in the prudential regulations (Annex C – Circular 285 of the Bank of Italy). Such methodology is applied on a monthly basis, for the purpose of ascertaining any loss in value on a prompt and continuous basis due to a market shock determined by reference to annual changes in the interest rates recorded over an observation period of six year, considering alternatively the 1st percentile (decrease) or the 99th percentile (increase) and guaranteeing the non-negativity of the rates.

The sensitivity analysis of interest rate makes it possible to highlight exposure, represented:
• for liabilities, by the total amount of financing reassessed on the basis of the maturities of the single tranches drawn down and the exposure in derivatives and the funding coming from Conto Facto and by the bond issue;
• for assets, by receivables represented by the exposure of purchasing non-recourse receivables and by investments in the portfolio of government securities.

The methodology used provides for:
• classification of assets and liabilities in different time slots; assignment to time slots occurs, for fixed rate assets and liabilities, on the basis of their residual life; for variable rate assets and liabilities, on the basis of the interest rate renegotiation date.
• net exposure weighting within each time slot: within each slot, asset positions are offset against with liability positions, obtaining a net position. Each net position, for each time slot, is multiplied by the weighting factors, obtained as the product between a hypothetical rate fluctuation and an approximation of the amended duration relating to the single slots;
• sum of the weighted positions of the various time slots: the weighted positions of the various slots are added together, obtaining a total weighted exposure.

The various items reported are divided according to the criteria established in Bank of Italy Circular 272 of July 30, 2008 *"Matrix Accounts"* and Bank of Italy Circular 115 of August 7, 1990 *"Instructions for the preparation of supervisory reporting on a consolidated basis"*, except for bank overdraft accounts and unrestricted deposits, which are distributed in the range "on sight" for a fixed portion of 25% (so-called 'non-core components'); for the remaining amount (so-called core component) in the following eight time ranges (from "up to 1 month" to "4-5 years") in proportion to the number of months contained therein.

The Total Weighted Exposure represents the present value change of cash flows, originated by the supposed interest rate scenario.

The assumption of interest rate risk connected to the funding activity of Banca Farmafactoring complies with the policies and restrictions established by the Board of Directors, and is governed by specific proxies in the matter, establishing limits of autonomy for those authorized to act within the Finance Department.

Corporate functions in charge of ensuring the correct management of interest rate risk are the Finance Department, the Risk Management function and the Senior Management, which submits to the Board of Directors on a yearly basis financing and funding as well as rate risk management policies, and suggests, if necessary, the appropriate steps, if any, to ensure that the activity is carried out in compliance with the risk management policies approved by Banca Farmafactoring.

The rate risk position is subject to reporting on a quarterly basis to senior management and the Board of Directors of the Bank, as part of the instructions set out by the Risk Management function for senior management.

Furthermore, at a management level, the Finance Department monitors on a monthly basis interest rate risk, as well as its management, by preparing a specific report.

Quantitative disclosure

The situation arising from the application of the interest rate management framework at December 31, 2014, reported below, points to a potential loss of value in the present value of cash flows, in cash, in the event of shock, equal to €8.9 million, equivalent to a risk index of 3.4%.

Consolidated rate risk at December 31, 2014
[Euro/000]

Maturity	ASSETS	LIABILITIES	Delta	SHOCK (market)	Weighted value
On sight and upon revocation	489.9	118.6	371.3	0.00%	-
up to 1 month	238.1	1.501.5	- 1.263.4	0.04%	- 0.5
from more than 1 month to 3 months	225.2	413.6	- 188.4	0.14%	- 0.3
from more than 3monthq to 6 months	617.0	111.4	505.6	0.32%	1.6
from more than 6 months to 12 months	871.2	129.3	741.9	0.71%	5.3
from more than 12 months to 24 months	215.7	67.7	148.0	1.32%	1.9
from more than 2 year to 3 years	346.3	317.8	28.5	2.14%	0.6
from more than 3 years to 4 years	5.1	2.5	2.6	2.72%	0.1
from more than 4 years to 5 years	2.1	1.6	0.5	3.08%	0.0
from more than 5 years to 7 years	2.9	-	2.9	3.56%	0.1
from more than 7 years to 10 years	-	-	-	3.56%	
from more than 10 years to 15 years	-	-	-	4.56%	
from more than 15 years to 20 years	-	-	-	5.85%	-
over 20 years	-	-	-	6.91%	-
	3.013.5	2.664.1			

TOTAL WEIGHTED VALUE (TWV)	8.9
OWN FUNDS AT 12.31.2014	*260.1*
RISKINESS INDEX (TWV /LoV)	3.4%

Section 12. Exposure to securitization positions

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

Qualitative disclosure

Strategies, processes and objectives
At December 31, 2014 there is a securitization transaction that the Company had put into place with Banca IMI on the receivables due from the Local Health Service Agencies (ASLs) and Hospital Companies (AOs) aimed at the diversification of sources of funding.

Characteristics of the transaction
The receivables were sold under ex Law 130/99 to the special-purpose entity (SPE), FF Finance S.r.l., which financed the purchase by issuing securities.

The transaction calls for an 18-month revolving period during which sales of receivables will be made against collections on the receivables, in order to maintain the collateralization ratio established in the contracts.
At the end of the revolving period, there will be a 6-month amortization period during which the securities will be repaid.

Description of the risk profile
Banca Farmafactoring, as the originator and subordinated provider, maintains a role in the securitization transaction, even though it sells the non-recourse receivables.
The transaction provides for a credit enhancement mechanism through an overcollateralization ratio (equal to 125.66% of the amount of the securities issued at December 31, 2014) and the subordinated loan carried by Banca Farmafactoring.
On the date of January 25, 2016 (the end of the amortization period), the SPE, through the exercise of a put option, has the right to transfer back to the Company any receivables sold and not yet collected.

At the end of the transaction, subsequent to the repayment of the securities and other senior expenses on the transaction, all the remaining amounts from the collection of the receivables sold, including interest on late payments, will be due to Banca Farmafactoring as the underwriter of the subordinated loan.

As a result of the above, all the risks and rewards of the transaction were not transferred to the assignee but remained with Banca Farmafactoring and, therefore, the securitization risk is included in the credit risk.

Quantitative disclosure

Type of financial instruments held
In December 2013 at the same time the transaction was renewed, the structure of the securities was modified making the transaction more flexible: in fact, based on its financial needs, the Company has the right: (i) to repay the securities at each payment date using the liquidity on the SPE accounts and (ii) at any time request the SPE to issue new securities on behalf of Duomo Funding Plc up to a maximum of €100 million.
Starting in January 2014, thanks to the flexibility mechanism mentioned above, the €100 million securities (amount of the securities at December 31, 2013) were partially repaid to €16.65 million (amount of the securities at December 31, 2014).

On January 9, 2015 an Amendment Agreement was signed by the parties to bring forward the end of the revolving phase from July 27, 2015 to January 26, 2015.
At January 31, 2015, the notes amount to €0.3 million.

Repayment of the notes and unwinding of the transaction is expected to be completed in February 2015.

The Group does not hold securities in portfolio issued as part of the securitization transaction.

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

Following the sales of receivables made to FF Finance S.r.l. during the revolving phase of the transaction, the outstanding nominal amount of receivables at December 31, 2014 is about €21.3 million.

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

Qualitative disclosure

Strategies, processes and objectives
In July 2014, the securitization transaction with the Deutsche Bank Group for the non-recourse sale of receivables due from the Local ASLs and AOs was renewed, with the aim of diversifying funding activities.

Characteristics of the transaction
The receivables were sold under ex Law 130/99 to a special-purpose entity, Farmafactoring SPV I S.r.l., which financed the purchase by issuing securities for €150 million, subscribed to by Deutsche Bank AG.
The renewed structure provides for a revolving period of 18 months during which revolving sales will be made against collections on receivables, in order to maintain the collateralization ratio established in the contract.

At the end of the revolving period there will be an amortization period correlating to the residual life of the outstanding receivables during which the securities will be repaid in full.

Description of the risk profile
Banca Farmafactoring, as the originator and subordinated provider, maintains a role in the securitization transaction, even though it sells the non-recourse receivables.

The transaction provides for a credit enhancement mechanism through an overcollateralization ratio (equal to 133.33% of the amount of the securities issued) and the subordinated loan carried by Banca Farmafactoring.
The contract states that the Company has the right to early terminate the revolving phase in the months of January, April, July and October 2015 against payment of consideration. In that case the Company can decide whether to start the amortization phase during which the senior notes will be repaid or directly repay the senior notes by repurchasing the remaining portfolio.

At the end of the transaction, subsequent to the repayment of the securities and other senior expenses on the transaction, all the remaining amounts from the collection of the receivables sold, including interest on late payment, will be due to Banca Farmafactoring as the subscriber of the subordinated loan. In light of this condition, together with the right of the Company to repurchase and/or substitute the receivables at any time, all the risks and rewards of the transaction were not transferred to the assignee but remain with Banca Farmafactoring itself and, therefore, the securitization risk is included in the credit risk.

Quantitative disclosure

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

Sub-servicer activity
Banca Farmafactoring, having the mandate for collection, recovers and collects the receivables on behalf of the servicer Zenith Service S.p.A.
Following the sales of receivables made during the revolving phase of the transaction, the nominal outstanding amount of receivables at December 31, 2014 is about €227 million.

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

Qualitative disclosure

Strategies, processes and objectives
On September 25, 2014 repayment of the senior notes under the Farmafactoring SPV II S.r.l. securitization program, originally for an amount of €70 million, was completed.

On October 24, 2014 agreements were signed with the SPV (issuer), the BayernLB Group (liquidity provider of the noteholder), Corelux Purchaser No. 1 SA (noteholder) and other counterparties of the transaction for the closing of the securitization program, sanctioning:
• cancellation of all contracts relating to the transaction;
• repurchase, on the part of Banca Farmafactoring, of the receivables portfolio still outstanding with the SPV and the debit note issued and not yet collected.

Overall quantitative disclosure

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

As previously described, at December 31, 2014, the following transactions are outstanding for the securitization of health care receivables sold but not derecognized since all the risks and rewards of ownership were not transferred upon sale:

• in June 2011, the securitization transaction structured by Banca IMI in which the receivables were sold to the SPE, FF Finance S.r.l., and not derecognized from assets. With regard to this transaction, the amount of receivables sold but not derecognized amounts to €21,016 thousand;

• in October 2012, the securitization transaction structured by Deutsche Bank. Similarly to the transaction with the SPE, FF Finance S.r.l., the receivables were sold to the SPE, Farmafactoring SPV I S.r.l., and not derecognized from assets. With regard to this transaction, the amount of receivables sold but not derecognized amounts to €222,071 thousand.

Since these receivables are recorded in the assets of the Company, they are considered in the capital requirement calculation relating to credit risk.
Given that the exposures are to "public sector entities", a 50% weighting is applied, except for exposures that have an original term equal to or less than three months, for which a 20% weighting is applied.

Banking Group - Financial assets sold but not derecognized, as part of securitization transactions: carrying amount and total amount

	Financial assets held for trading			Financial assets measured at fair value through profit or loss			Available-for-sale financial assets			Held-to-maturity financial assets			Due from banks			Due from customers for receivables and loans			Total	
Type/Portfolio	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	12.31.14	12.31.13
A. Balance sheet assets																**242,685**			**242,685**	**308,557**
1. Debt securities																				
2. Equity securities																				
3. Units in investment funds																				
4. Loans																242,685			242,685	**308,557**
B. Derivative instruments																				
Total 2014																**242,685**			**242,685**	
of which impaired																				
Total 2013																**308,557**				**308,557**
of which impaired																				

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

Financial liabilities compared to financial assets sold but not derecognized, as part of securitization transactions: carrying amount

Liabilities/ Assets portfolio	Financial assets held for trading	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity financial assets	Due from banks	Due from customers for receivables and loans	Total
1. Due to customers						**157,299**	**157,299**
a) related to assets totally recognized						157,299	**157,299**
b) related to assets partially recognized							
2. Due to banks							
a) related to assets totally recognized							
b) related to assets partially recognized							
Total 2014						**157,299**	**157,299**
Total 2013						**151,056**	**151,056**

Section 13. Remuneration policy

Qualitative disclosure

Remuneration policy definition

The remuneration and incentive policies of the Banca Farmafactoring Banking Group have been designed with the ultimate objective of achieving, in the interests of the stakeholders, remuneration policies to support the values, strategies and corporate objectives over the long term. These policies are linked to the results of the Company and adjusted to take into account the risks assumed by the Group and, in particular, the levels of capital and liquidity necessary to manage the activities undertaken, so as to avoid distorted incentives that may cause an inducement to commit violations of laws or an excessive assumption of risks for the Group.

The following is mentioned in conjunction with the process for defining the remuneration policy:

i) The Board of Directors:
• drafts, submits to the shareholders' meeting and reviews at least once a year the remuneration policy and oversees its proper implementation;
• ensures that the remuneration policy is adequately documented and can be accessed internally;
• proposes the remuneration and incentive policy to the shareholders' meeting for its approval.

The board of directors defines, for the Group, the remuneration and incentive systems for the executive directors, those heading the major lines of business, executives and those in charge of the corporate control functions.

ii) the Remuneration Committee:
On January 25, 2013 the Board of Directors formed the Remuneration Committee, which has advisory and proactive functions in the matter of personnel remuneration and incentive policies. It is charged with contributing to the definition of the guidelines for remuneration and incentive policies and periodical assessment, in addition to formulating proposals for remuneration and/or incentives for the directors who hold specific positions and for material risk taker.

The Remuneration Committee held five meetings during the course of 2014.
The Remuneration Committee is composed of three members, one of whom is the Chairman of the Board of Directors.

iii) the Risks Committee:
On July 24, 2014 the Board of Directors formed the Risks Committee, which has among its functions that of ascertaining that the incentives in the remuneration system of the Group are consistent with the RAF.
Moreover, the implementation of the remuneration and incentive policies, at least once a year is subject to verification by the control functions, each according to its specific authority, in order to ensure that the remuneration policies and practices adopted and their proper functioning are adequate in relation to and in correspondence with the law.

In particular:
• the Compliance Function evaluates ex ante the correspondence of the remuneration and incentive policies with the legal framework of reference and verifies ex post, among others, the consistency of the corporate reward system with the objectives of the Statute and the Code of Ethics and any other standards of conduct applicable so that any legal or reputational risks are duly limited;
• the Audit Function verifies at least annually the correspondence of the remuneration and incentive practices to the policies approved and to the reference law;
The process for the formation of the remuneration and incentive policies of the BFF Group also call for the participation of the following functions:
• Personnel and General Services: examines the remuneration and incentive policies, verifying the application of the criteria for the identification of material risk takers and the objectives, the bonus activation schemes and the operating rules;
• Risk Management: supports the identification of material risk takers, providing indications relating to the current and future risk profile in line with the ICAAP analysis, also at a consolidated level;
• Administration and Control: ensures the fairness and correctness of accounting documents supporting the earnings and financial results.

Identification of 'material risk taker'

The remuneration and incentive policies are based on a corporate role classification system consistent with the definition of 'material risk taker') as set out by the Group in accordance with the Community Directive approved on June 24, 2014.

The BFF Group has identified material risk takers according to a self-evaluation process conducted on the basis of the provisions of existing law, the regulation on the subject of duties and responsibilities by the organizational unit, the corporate procedures, the job description and the individual powers of attorney. As a result, considering the effective levels of autonomy and the impact on the business, the following have been identified as material risk takers:
• Chief Executive Officer
• Vice President of Operations
• Vice President of Finance
• Vice President of Administration and Control
• Head of Online Banking
• Head of Planning and Development
• Head of Credit Assessment
• Head of ICT Function
• Head of Personnel and General Services
• Head of Internal Audit
• Head of Risk Management, Compliance and AML
• Head of Commercial and Business Development
• Head of Receivables and Loans
• Head of Treasury and Collections
• General Manager of Farmafactoring España S.A.

Remuneration components

Fixed and variable components

The BFF Group, using adequate remuneration and incentive mechanisms, intends to encourage corporate competitiveness while promoting sound and prudent management and strengthening the management of the Company, guaranteeing that independent, informed and timely decisions are taken at an appropriate level, so as to avoid conflicts of interest and ensuring proper disclosure as required by the competent authorities.
In short, the remuneration policies adopted by the Group are the following:

a) Non-executive directors:
• are recipients of gross annual compensation fixed by the shareholders' meeting for participating in Board of Directors' meetings and of reimbursements of expenses effectively incurred for the execution of their duties;
• under no circumstance are non-executive directors entitled to compensation for having reached Group profitability indexes or profit targets;
• all directors have liability insurance.

b) Chairman of the Board of Directors:
• is paid a fixed component (consisting of the fixed component established by the shareholders' meeting and the component set by the Board of Directors pursuant to art. 2389, third paragraph of the Italian Civil Code) determined *ex ante* and consistent with the role assigned to the Chairman, in an amount not higher than the fixed compensation of the Chief Executive Officer.

c) Chief Executive Officer:
• is the recipient of a fixed component including benefits;
• is paid a variable component linked to reaching and exceeding the profit goal in the budget, adjusted by the risk as indicated in the risk appetite framework, besides maintaining the minimum regulatory capital.

d) Statutory Auditors:
• are recipients of a fee established by the shareholders' meeting;
• are not recipients of any compensation that is variable or linked to the results of the Bank or the Group;
• have liability insurance.
In accordance with the provisions of paragraph 16 of IAS 24, disclosure of the compensation paid to directors and statutory auditors are reported in Part H of the notes to the separate financial statements under the disclosure on the compensation to key executives.

e) Supervisory Body
The members of the Supervisory Body, who are not employees of the Bank, are paid a fixed fee established by the Board of Directors on the basis of market conditions and responsibilities assumed. Under no circumstances is the supervisory body entitled to variable compensation linked to the results of the Group, of the Bank or of the same Supervisory Body.

The Board of Directors has the right to confer specific assignments to the directors, indicating the compensation for the execution of such assignments.

f) Remaining personnel
Compensation for the remaining personnel, depending on the circumstances, is decided by the Board of Directors (in reference to executives), by the Chief Executive Officer or persons authorized by the CEO, in accordance with the Group Remuneration and Incentive Policy and with applicable contract law (in particular, the National Labor Collective Agreement) for management staff and for personnel in professional areas of the credit, financial and related institutions and by the National Labor Collective Agreement for executives of credit, financial and related institutions and similar collective labor agreements for the Spanish organization.

Specifically, material risk takers are paid a fixed component that compensates for the position held and the magnitude of their responsibility, and an incentive component which aims to recognize the results achieved by creating a direct link between compensation and actual results in the short and medium to long term of the Group and, on the whole, the Company and the material risk taker.

The paymix limits the incidence of the variable to the fixed component and was determined based on total compensation and according to existing law, principles of continuity with the past and coherence between the various roles and responsibilities, however without omitting market comparison. The basis of the calculation for the ratio between fixed and variable components is formed by fixed compensation and benefits based on their gross amount for tax purposes.

The parameters used in determining the variable component of compensation are well known and agreed with those entitled to such compensation.

The up front and deferred payment of the variable component is in any case subject to the observance of the parameters identified in the RAF and the capital requirements.

The deferred variable component is subject to *ex post* (malus and clawback) adjustment mechanisms, within the limits permitted by the applicable collective labor agreement, suitable to reflect the performance levels net of the risks effectively assumed or reached, in addition to taking into consideration individual behavior.

No forms of guaranteed variable compensation are allowed except in special cases when new persons are hired and only in their first year of employment.

Compensation linked to the continuation of an employment relationship, in the form of a retention bonus, constitutes variable compensation and as such is subject to the rules applied to variable compensation, including the limit on the variable to fixed compensation ratio.

Benefit
Personnel are also entitled to specific benefit packages, differentiated according to homogeneous target population and by country. They may include, among other things, health care, supplementary benefits, certain insurance coverage and a company car, consistently with what is allowed by local law, the importance and complexity of the positions held, equality principles and alignment with the local labor market, and, in any case, in compliance with the guidelines of the Group.

Early termination of the working relationship

The treatment applied in the event of the early termination of the working relationship is that provided by the relative employment contract. The Board of Directors of the Parent company may offer golden parachutes for material risk takers in such event or in the case of the cessation of the position held, according to the conditions provided by existing regulations and criteria approved by the shareholders' meeting.

Non-competition agreements

If an employee is a material risk taker and signs a non-competition agreement which binds him/her from professionally not accepting a job with certain companies for a certain period of time starting from the date the working relationship ends, the BFF Group company involved will pay that person a sum of money. The amount is determined using the gross annual salary of the most recent year as the basis of calculation to which the qualitative and quantitative indicators are applied which reflect the performance level and risks assumed by the person and by the Group, in addition to ex post (malus and clawback) adjustment mechanisms, within the limits permitted by the collective labor agreement applicable to the working relationship, as provided by laws and, in any case, in observance of the limits and prescriptions of the laws on the matter.

Quantitative disclosure

Remuneration for the year 2014

Remuneration of the Banca Farmafactoring Banking Group paid in 2014 for the fixed and variable component of remuneration refers to various positions held, as follows:

	No. of persons	Fixed compensation	Variable compensation			Deferred portion *(of which, already agreed portion)*	Deferred portion paid during the year
Position			Cash	Shares	Related instruments		
Executive Directors or with special assignments	3	725	573	-	-	172	
Chairman and other Directors	6	410					
Statutory Auditors	3	194					
Heads of the major business functions	9	1,364	937	-	-	281	
Heads of the control functions	3	407	246	-	-	74	
Total	**24**	**3,100**	**1,756**			**527**	

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