GRUPPO BANCARIO

BANCA FARMAFACTORING

2013 3rd PILLAR PUBLIC DISCLOSURE

GRUPPO BANCARIO
BANCA FARMAFACTORING

Table of contents

Table 1.	General disclosure requirement	5
Table 2.	Scope of application	18
Table 3.	Composition of regulatory capital	20
Table 4.	Capital adequacy	23
Table 5.	Credit risk: general disclosure for all banks	29
Table 6.	Credit risk: disclosure for portfolios subject to Standardised approach and specialised lending and equity exposures subject to IRB approaches	39
Table 9.	Counterparty risk	42
Table 10.	Securitisation transactions	46
Table 12.	Operational risk	53
Table 14.	Interest rate risk on positions in the banking portfolio	55
Table 15.	Remuneration and incentive systems and practices	57

Introduction

Circular No. 263 of 27 December 2006 and subsequent updates *"New prudential supervision provisions for banks"* of the Bank of Italy includes the Basel Accord on prudential supervision, known as Basel II, founded on three "pillars":

• 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.

• 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 need be, appropriate corrective measures. The Group submits by 30 April 2014 to the Bank of Italy the "ICAAP Report", as an update of the risk management system aimed at the determining capital adequacy.

• The **Third Pillar** establishes specific periodical disclosure obligations concerning capital adequacy, risk exposure and the general features of the related systems for identification, measurement and management of risks.

This document is divided into 11 Tables setting out qualitative and quantitative disclosure as at 31 December 2013 in compliance with the provisions of Circular No. 263, Title IV, Chapter 1, Annex A "Public Disclosure". Please note that tables that have no disclosure content are not published.

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

Circular No. 263 of the Bank of Italy, finally, provides for banks and banking Groups to formalise strategies and procedures aiming at insuring compliance with disclosure requirements, evaluating the suitability thereof also in terms of procedures and frequency of dissemination of information, with the purpose of insuring completeness, correctness and truthfulness of the information published.
To this end the Board of Directors of Banca Farmafactoring approved a dedicated procedure called "Public disclosure (3rd Pillar)".

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 terms provided for the publication of the financial statements and accordingly within thirty days of the approval date of the financial statements by the Shareholders' Meeting.

The following is a summary of the Tables established by the reference law, with an indication of the disclosure published in this document.

Table	Description	Qualitative disclosure	Quantitative disclosure
Table 1	General disclosure requirement	x	non envisaged
Table 2	Scope of application	x	not applicable
Table 3	Composition of regulatory capital	x	x
Table 4	Capital adequacy	x	x
Table 5	Credit risk: general disclosure for all banks	x	x
Table 6	Credit risk: disclosure for portfolios subject to standardised approach and specialised lending and equity exposures subject to IRB approaches	x	x
Table 7	Credit risk: disclosure for portfolios applying IRB approaches	Activity not carried out by Banca Farmafactoring Group	
Table 8	Risk mitigation techniques	Activity not carried out by Banca Farmafactoring Group	
Table 9	Counterparty risk	x	x
Table 10	Securitisation transactions	x	x
Table 11	Market risk: disclosure for banks using the internal models approach (IMA) for position risk, foreign exchange rate risk and commodity risk	Activity not carried out by Banca Farmafactoring Group	
Table 12	Operational risk	x	non envisaged
Table 13	Equity exposures: disclosure for banking book positions	Activity not carried out by Banca Farmafactoring Group	
Table 14	Interest rate risk on positions in the banking portfolio	x	x
Table 15	Remuneration and incentive systems and practices	x	x

Table 1. General disclosure requirement

Qualitative disclosure

a) *For each risk category (including those considered in the following tables), banks publish risk management goals and policies focusing, in particular:*
a) on the strategies and processes for managing such risks;
b) on the structure and organisation of the relevant risk management function;
c) on the scope of application and the features of risk measurement and reporting systems;
d) on the risk hedging and mitigation policies, on strategies and processes for ongoing testing of the effectiveness thereof.

Introduction

The Banking Group adopted appropriate corporate governance systems as well as adequate management and control mechanisms, for the purpose of facing the risks it is exposed to; such safeguards are comprised in the management and internal control system regime, aiming at insuring a management inspired by efficiency, effectiveness and fairness principles, covering any corporate risk type consistently with the features, size and complexity of the business carried out.
In such view, the Group formalised its risk management policies, carries out periodic reviews thereof, for the purpose of insuring effectiveness over time, and supervises, on an ongoing basis, the actual operation of risk management and control processes.

Such policies define:
• risk governance and responsibilities of the Organisational Units involved in the management process;
• the identification of the risks the Group is exposes to, measurement and stress testing processes, information flows summarising monitoring activities;
• the annual assessment procedure over internal capital adequacy;
• future capital adequacy assessment activities linked to the strategic planning procedure.

The Corporate Bodies of the Bank, as Parent company of the Banca Farmafactoring S.p.A. Banking Group, are in charge of defining the risk governance and management model at a Group level, taking into consideration the specific operations and the relating risk profiles characterising 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 tasks they are in charge of not only with respect of their own company reality, but also evaluating the Group's overall operations and the risks it is exposed to involving, in the most appropriate ways, the Corporate Bodies of the Subsidiary in the choices made in the matter of risk management procedures and policies.

At a Group level, the Risk Management and Anti Money Laundering Office, cooperates in defining and implementing risk governance policies process through an adequate management process of

the same risks. The Responsible is not involved in the operational activities he shall check, and his tasks, and relating responsibilities, are governed by a specific internal Regulation.

The Risk Management Function has, *inter alia*, the responsibility of:
• cooperating with the Corporate Bodies in the definition of the overall risk management system;
• insuring adequate risk management procedures by introducing and maintaining appropriate risk management systems to identify, measure, control and mitigate all relevant risks;
• insuring the assessment of the absorbed capital and the respective adequacy, by defining processes and procedures to face any present and future risk type, taking into account the strategies and evolution of the environment;
• supervising the operation of the risk management process and verifying compliance therewith;
• monitoring the adequacy and effectiveness of the measures adopted to remedy deficiencies identified in the risk management system;
• submitting to the Corporate Bodies periodic reports regarding the activity carried out and providing them with advice in the matter of risk management.

Here below are described, according to what set forth in Title IV. Chapter I, Annex A, of Circular No. 263 of the Bank of Italy, management policies for each Banking Group risk category.

CREDIT RISK

The factoring activity, governed by the Italian Civil Code (Book IV – Title V, articles 1260–1267) and by Law 21 February 1991, No. 52 et seq., consists in a variety of financial services comprising recourse and non-recourse assignment of commercial receivables.
Peculiar feature of the factoring transaction is the involvement with various titles of three parties, in summary:
• Factor (assignee)
• Client (assignor)
• Payor (assigned)

Also in connection with credit risk assessment, please note that the Group did not carry out any impaired receivables purchase activity, including that performed pursuant to the above mentioned law No. 52/91.

Credit risk management policies

Organisational aspects
In light of the observations set out above, the assessment of a factoring transaction shall be carried out analysing a variety of factors, ranging from the risk fragmentation degree to the features of the commercial relationship underlying the credit quality, from the repayment capacity of the assignor client to the solvability of assigned payors.
Credit risk monitoring and management begins with the preliminary investigation phase of the assignment, in preparation of the granting of a factoring service, in which different corporate functions cooperate with specific synergy to provide analytical-subjective assessments of the counterparties, both quantitative (current, previous and perspective economic-financial situations) and

qualitative (level of the management, competitiveness and perspectives of the product, potential receivable volume to be dealt with).
The guidelines and credit risk monitoring and control procedures are included in the "Credit Regulation" in place, and in the "Credit Control Regulation", which describes the credit control process over the payor, and forms and integral part of the "Credit Regulation".
The credit risk is therefore adequately controlled at various levels, in the context of the different operational processes.

Management, measurement and control systems
Credit risk assessment is part of an overall assessment of the Banking Group's capital adequacy with respect to receivable connected risks.
In such view, the Group uses, for measuring credit risk, the "Standardised" method, as described by Circular No. 263 of the Bank of Italy of 27 December 2006 *"New prudential supervision provisions for banks"* and further updates, implying the partition of exposures in different classes ("portfolios") on the basis of the counterparty's nature, and the application, to each portfolio, of diversified weighting ratios.
In particular, for the "Central administrations and central banks" portfolio, the weighting depends upon the rating assigned from ECAIs or ECAs to the single States; for the "Supervised intermediaries" portfolio, the weighting depends upon the rating of the State in which the supervised intermediary has its registered office; for the "Public sector entities" portfolio, the weighting rules are the same as those provided for supervised intermediaries.

On 13 June 2013 the Banking Group's intention to avail itself, starting from the information flow as at 30 June 2013, of the evaluations issued by ECAI *Dominion Bond Rating Service* (DBRS), in replacement of *Moody's Investor Service* has been notified to the Bank of Italy.

The unsolicited rating assigned to the Italian Republic by DBRS is *"A low"* and, accordingly, exposures towards the Public Administration fall within creditworthiness class 2, with a 50% weighting.
Such value has been held to be more indicative – as opposed to 100% weighting, relating to creditworthiness class 3, fixed by *Moody's Investor Services* – for the actual risks to be assigned to the Public Administration's counterparties, currently representing more than 95% of the Banking Group's exposure.

Non-recourse receivables acquired by Farmafactoring España, are 20% weighted, since reference counterparties of such exposures are represented by the *"Comunidad"* (the Regions) and not by Public Administration Entities.
The Banking Group constantly maintains, as capital requirement against credit risk, a regulatory capital amount equal to at least 8% of risk-weighted exposures.

Capital requirement = 8% RWA

The *"Risk Weighted Amount"* is determined by the sum of the "risk weighted" of the different classes.

Based on the above procedure, the consolidated capital requirement against credit risk, as at 31.12.2013, is equal to 52,984 thousand euros.

Furthermore, the "Credit Regulation", sets out the phases that the industry legislation indicates as components of the credit process:
- preliminary enquiry;
- resolution;
- supply;
- monitoring and review;
- litigation.

For the purpose of identifying the most important risk factors, the main activities carried out by the company are described:
- only management;
- non-recourse factoring;
- with-recourse factoring.

In the "only management" service, credit risk is very low, since limited to the exposures claimed towards the client for payment of the agreed fees, meaning the repayment of legal expenses borne. The granting of an "only management" assignment follows the typical path of the credit process, also in case the assignment is resolved by a non-collegiate body.
The "non-recourse factoring", by its nature, represents the service most exposed to credit risk. For this reason, the preliminary inquiry phases of the assignment are carried out, with upmost care, and decision making powers are reserved to resolving Bodies.

Credit risk management, therefore, in addition than on the basis of internal corporate rules, occurs in priority compliance with external legal provisions (Circular No. 263 of the Bank of Italy of 27 December 2006 *"New prudential supervision provisions for banks"* and further updates) in the matter of risk concentration; in particular:
- "big risk" is defined as every risk position of an amount equal to or higher than 10% of the regulatory capital;
- banking groups and banks not belonging to banking groups are obliged to maintain every risk position within the threshold of 25% of the regulatory capital;

Furthermore, Banca Farmafactoring carries out Reporting to the Central Credit Register on a monthly basis (Circular No. 139 of the Bank of Italy of 11 February 1991 – 14th update of 29 April 2011 *"Central Credit Register. Instructions for credit intermediaries"*), providing information on the trend of financial indebtedness of the payor over time and on the granted/drawn down ratio (expressing the financial leverage of the company and the indebtedness margins of the same towards the system).

Credit qualitative assessment

An impairment analysis is carried out on the receivable portfolio, aiming at identifying any reduction in value of proprietary financial assets.

Such analysis allowed the distinction between Performing Receivables and Non Performing Receivables, including in this latter category financial assets with loss risk at individual level, while the remaining financial assets have been considered Performing.

Performing Receivables

The assessment of Performing Receivables includes those loans to clients for which, although past due since more than 90 days, show no objective loss indications at individual level.
Such representation is in line with the assessment criterion for receivables the final title of which is purchased at "amortised cost", based, in fact, on the actualisation of the expected cash flows, which requires an estimate of payment times.

Although receivables are almost exclusively towards the Public Administration, as in previous years, upon every preparation of financial statements or interim reports, the Bank, pursuant to IAS 39, carried out a collective assessment of Performing Receivables *(impairment test)*, suitable to monitor quantitative contents.

In order to determine the "loss given default" (LGD), the Company adopted the value proposed by the "Basel Framework Scheme" for receivables not covered by collateral towards sovereign entities, enterprises and banks, equal to 45% of the ascertained "probability of default" (PD).
The collective assessment of the "probability of default" (PD) has been carried out assigning a rating to payors (ASL/AO) corresponding to that assigned to the relevant Region of the most important rating agencies.

Such analysis and the relating calculation procedure has been established upon adoption of the international accounting principles. Such calculation has never produced significant data, since the Probabilities of default (PD) assigned to Regions on the basis of the ratings led to a low impairment test outcome.

Starting from July 2012, the input parameters of the collective impairment model led, after the continues downgrades of the Republic of Italy and the consequent downgrades of the Regions occurred in the fourth quarter 2011, to the calculation of PDs higher than in the past and, accordingly, to collective impairment values no longer negligible.

In particular, as at 31 December 2013, the impairment test highlighted an outcome equal to approximately 2 million euros. Such figure led to a further collective write-down, for the year, of approximately 217 thousand euros.

Non Performing Receivables

According to IAS 39, and for an analytical assessment purposes, the Bank carried out a mapping of financial assets classified as Non Performing Receivables, for the purpose of identifying positions that individually show objective value losses.

Non Performing Receivables of the Banking Group are comprised of Non-Performing Assets of Banca Farmafactoring, the value of which, net of analytical write-downs, amounts to 2,368 thousand euros.

Credit risk mitigation techniques

For the purpose of insuring compatibility with the "derecognition" principle of receivables acquired on a definitive basis, risk mitigation clauses that could in some ways invalidate the effective transfer of risks and benefits have been deleted from the respective agreements.

Impaired financial assets

Pursuant to the Bank of Italy's Circular No. 262 of 22 December 2005 and subsequent updates "Banking financial statements: schemes and drafting rules" the Group divided between receivables towards "performing" and "impaired" clients.

"Impaired Exposures/Assets" correspond to the sum of:
- Past due exposures, for a net value of 5,803 thousand euros;
- Restructured exposures, not observed;
- Doubtful, for a net value of 196 thousand euros;
- Non performing, for a net value of 2,368 thousand euros;

the definitions of which are set forth by the applicable Supervision Reporting, and contained in the Bank of Italy's Circular No. 272 of 30 July 2008 "Accounting Matrix" and subsequent updates.

Past due exposures.
Comprise exposures towards central administrations and central banks, territorial entities, public sector entities, non-profit entities and enterprises that as at the reference date of 31 December 2013 are past due since more than 90 days.
In particular, exposures towards central administrations and central banks, public sector entities and territorial entities are considered past due when the payor failed to make any payment for any debt position towards the financial intermediary for more than 90 days compared to the scheduled maturity.

As at 31 December 2013, past due net Exposures amount to 5,803 thousand euros.

Restructured exposures.
Comprise exposures for which an intermediary, due to the deterioration of the economic-financial situation of the payor, agrees to amend the original contractual terms, giving rise to a loss.

As at 31 December 2013, the Group does not have positions classified as Restructured Exposures.

Doubtful.
Comprise exposures towards parties in temporary situation of objective difficulty that is expected to pass within a suitable period of time.
Among doubtful exposures are included the so called "Objective doubtful", namely exposures with the following features:
- do not belong to the "Central Administrations and Central Banks", "Territorial Entities" and "Public Sector Entities" portfolios;
- are past due on a continuous basis since more than 270 days;
- the aggregate amount of past due exposures represents a portion equal to at least 10% of the overall exposure.

As at 31 December 2013, net Doubtful assets amount to 196 thousand euros, and exclusively comprise "Objective doubtful".

Non performing.
Comprise exposures towards a defaulting party or a party in substantially similar situations, regardless to any loss forecasts made by the company.

As at 31 December 2013, the overall amount of non-performing assets, net of write-downs deriving from expected value losses, amounts to 2,368 thousand euros, figure relevantly lower than in the preceding year (11,280 thousand euros).

Such amount corresponds to the exposure towards the payor Fondazione Monte Tabor in winding up and composition with creditors procedure that, in the course of 2013, paid the first two distributions, for approximately 9.6 million euros.
After the recognition – by the Composition with Creditors, approved by the Creditor's Meeting on 19 March 2012 – of the capital amount as well as the amount on account of delay interests, by the way already fully wrote-down, the Company decided not to post any provision, since the total amount of payments that will be received under the agreement is in line with the outstanding capital amount.

Gross Non-performing assets, compared to 31 December 2012, dropped from approximately 14.1 million euros to approximately 4.6 million euros, due to the above mentioned payments received by Fondazione Monte Tabor in winding up and composition with creditors procedure. This decrease has been partially set-off by the posting as non performing of an additional payor and an assignor, for an amount of approximately 600 thousand euros, by the way fully adjusted in the course of the year.
The remaining non-performing exposures are accordingly fully written down from the adjustment provision, and their net value is equal to 0.

Contrary to the observations made for Non Performing exposures, the assessment of Past Due exposures and Doubtful exposures is made at a portfolio level, since these positions do not show objective loss elements at individual level.

Securitisation transactions

Three securitisation transactions over healthcare receivables are outstanding, respectively structured with Banca IMI, Deutsche Bank and BayernLB AG.
In respect of these transactions, receivables are transferred to SPVs but are not deleted from assets, since the transfer does not imply the derecognition thereof, meaning the transfer of risks and benefits.
All risks and benefits, accordingly, remain on the side of the Group and the relating securitisation risk is included in the credit risk.

COUNTERPARTY RISK

Comprises a specific type of credit risk that gives rise to a loss if the transactions executed with a specific counterparty have a positive value upon default.
For the Group, the counterparty risk is only embedded in the execution, by Banca Farmafactoring, of derivative contracts for the hedging of interest rate fluctuation risk: applying the "Standardised" method the amount thereof is of little relevance.

MARKET RISK

For measuring market risk, the Group avails itself of the "Standard" method as outlined by Circular No. 263 of the Bank of Italy. The regime identifies and governs the treatment of various types of market risk with reference to the trading portfolio for supervisory purposes.

The Banca Farmafactoring Banking Group does not perform trading activities over financial instruments. As at 31 December 2013, the only positions included in the trading portfolio for supervisory purposes are represented by interest rate derivative contracts that, although used with the exclusive purpose of hedging interest rate risk relating to receivable purchasing activity on a definitive basis, do not fall within the accounting concept of "hedging instrument". The market risk identified by the Group, therefore, refers to position risk regarding such derivative financial instruments.

Interest rate risk is represented by a fluctuation of market rate levels such as to cause negative effects on the company's income statement. Bank loans, represented by receivables purchased on a definitive basis, are fixed rate, while the funding activity is mainly variable rate. The criticality consists of the amount of financing exposed to such risk.

The amount of derivative instruments, executed for the purpose of mitigating interest rate fluctuation risk, is determined for the purpose of converting into fixed rate a portion of the funding which is variable rate originated, correlating the hedging size to the portion of funding used for financing fixed rate loans: in this respect the followings are taken into account, acquired receivables exposure, outstanding purchases, the fixed rate embedded in the fees and the correlated exposure flows, so to create a matching between the hedged element (fixed rate over outstanding) and the agreed rate on the derivative transaction stock.
As at 31 December 2013, the transaction stock is equal to 153 million euros.

Hedging strategies follow the Euribor rate trend and the market expectations, embedded in the forward curves.
As at 31 December 2013, the hedging instruments' fair value is negative for 543 thousand euros.

The fair value represents the value of the financial instrument. Such value depends upon the specific composition of the financial transaction and the structure of market curves over time (rate curves, volatility curves).

Every financial security structure, from the simplest to the most complex, can be broken down or linked to one or more vanilla securities of the following types:

1) **fixed rate component**, for which cash flows generated by interests are calculated, on the basis of rate fixed, nominal value and duration. The market value is equal to the sum of actualised flows through the calculated discount factors;
2) **variable rate component**, for which the forward rates are calculated, on the basis of the discount factors curve. Interest cash flows are estimated on the basis of forward rates. The market value is equal to the sum of actualised flows.

As at 31 December 2013, and based upon the upward performance registered by the rate curve, there is an increase compared to the figure as at the closing of the preceding year (the fair value of the hedging instruments was a negative value of 2,244 thousand euros, with a positive impact on the income statement, equal to 1,705 thousand euros), while there is a full correlation with implicit rates included in loans granted in the same period.

The financing structure of the Bank is represented by committed and uncommitted credit facilities. Ordinary credit facilities, equal to 22% of the overall entrustments, do not have a scheduled maturity and are used, according to treasury needs, averagely within three months. At the same time, structured credit facilities with maturity between 12 and 36 months provide, in part, for the possibility of revolving use, with durations between one week and six months, renewable from time to time until the scheduled maturity.

The capital requirement for position risk, as at 31 December 2013 equal to 893 thousand euros, is determined through the maturity based Method, as set out in Circular No. 263 of the Bank of Italy. Such interest rate risk measurement system provides for the calculation of the net position relating to each issue, and the subsequent distribution, separately for each currency, in residual duration time slots.
It is the result of the sum of the values of residual positions and set-off positions, the latter weighted according to the procedures set out by law.
In line with the above, the reduced risk exposure does not require the use of control instruments besides those dedicated to ordinary management.

INTEREST RATE RISK

For the purpose of evaluating interest rate risk, the Banking Group looks at the methodology set forth in prudential regulations (Annex C – Circular No. 285 of the Bank of Italy). Such methodology is applied on a monthly basis, for the purpose of observing on a prompt and continuous basis any loss of value compared to:
• a market shock determined on the basis of yearly interest rate fluctuations registered in a six years observation period;
• a 200 basis point interest rate shock.

The sensitivity analysis to interest rate implies the establishment of a management framework highlighting exposure, represented:

• for liabilities, by the overall financing amount reassessed on the basis of the single draw down tranches maturities and the exposure to derivatives;

• for assets, by loans represented by the exposure for purchasing non-recourse receivables, the payments of which are estimated based on payors' payment time statistics, and adjusted on the basis of settlement agreements, if any, with the single regions and/or with relevant payors, or adjusted after asset transfers.

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, active positions are set-off with passive positions, obtaining a net position. Each net position, for each time slot, is multiplied by the weighting factors, obtained as the product between an 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: weighted positions of the various slots are added together, obtaining a total weighted exposure.

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

The situation deriving from the application of the interest rate risk management framework, as at 31 December 2013, outlines a potential loss in the present value of cash flows, in case of market shock, equal to 7 million euros, and in case of +200 basis point shock, of 9.6 million euros.

The assumption of 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 authorised to act within the Finance Department.

Corporate functions in charge of insuring the correct management of 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 the case, the appropriate steps, if any, to insure 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 the Senior Management and the Board of Directors of the Bank, as part of the directions set out by the Risk Management function for the top 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 reporting.

FOREIGN EXCHANGE RISK

Foreign exchange risk is represented by the Banking Group's exposure to movements in currencies, considering both currency positions and those that provide for indexation clauses linked to the performance of exchange rates of a specific currency.
The Group's asset portfolio is entirely expressed in euro; therefore, the risk connected with currency volatility shall be considered non-existent.

LIQUIDITY RISK

Liquidity risk is represented by the possibility for the Group not to be able to meet its payment obligations due to the failure to collect funds on the financial market, or restrictions to asset divestments. Such risk is represented, moreover, by the failure to find new financial resources appropriate, in terms of amount and cost, when compared with operational needs, forcing the Group to slow down or stop business development or incur excessive funding costs to meet its obligations, with relevant negative impacts on business marginality.

Liquidity risk can have the following risk components:
• ***Liquidity Mismatch Risk***: represents the risk of mismatch between the amounts and/or timing of inbound and outbound flows.
• ***Liquidity Contingency Risk***: represents the risk that future unexpected events may require a higher liquidity amount than that expected in a normal business continuity scenario. Such risk can be originated by events such as failed renewal of financings, need to fund new businesses, difficulties in selling liquid assets or to obtain new funding in case of liquidity crunch.
• ***Market Liquidity Risk***: represents the risk to incur losses to liquidate assets deemed liquid in normal market conditions, and that it is obliged to hold in the absence of a market.
• ***Operational Liquidity Risk***: represents the risk of failure to meet payment obligations due to mistakes, braches, interruptions or damages due to internal processes, people, external systems or events, although remaining solvent.
• ***Funding risk***: represent the risk of losses deriving from the failure to resort to funding sources at low costs to face expenses and/or the potential increase of funding cost, due to rating change (internal factor) and/or credit spread widening (external factor).

The Group, in compliance with the provisions contained in the prudential supervisory regime issued by the Bank of Italy, adopted a risk management Policy and a Treasury and Finance Regulation, with the purpose of maintaining a high diversification, aiming at limiting liquidity risk, and identifying governance and control principles as well as functions delegated to the operational and structural management of liquidity risk.

Such internal rules define:
• the liquidity risk management criteria adopted, defined on the basis of the specific Group operations and potential liquidity risk sources;
• the operational procedures through which the Group monitors such risk, including a diversification of short term assets (management of operational liquidity) and medium term assets (management of structural liquidity);

- the stress test definition criteria and modalities, aiming at measuring under a quantitative point of view the ability of the Group to face potential adverse events that could impact on the liquidity risk level;
- the Contingency Funding Plan that defines strategies and operational procedures for managing pre-alert, alert and crisis situations, as well as connected roles and responsibilities;

For safeguarding liquidity risk management and control processes, the Group adopted a governance model based on the following principles:

- separation between liquidity management processes and liquidity risk control processes;
- development of liquidity risk management and control processes, in line with the hierarchical structure and through a delegation process;
- decision sharing and certainty about responsibilities assigned to governing, control and operational bodies;
- compliance of liquidity risk management and monitoring processes with the indications of prudential supervision.

Stress tests on liquidity risk have been carried out with the purpose of assessing future impacts of stress scenarios on the Group's solvability conditions.

OPERATIONAL RISK

Operational risk is the risk of incurring losses deriving from deficiency or malfunctioning of procedures, people and internal systems, or external events. Such type include, inter alia, losses deriving from frauds, human mistakes, interruptions of operations, unavailability of systems, breaches of contracts, natural disasters; operational risk comprises legal risk, which does not comprise strategic and reputational risks.
Operational risk, therefore, refers to various type of events that would not be singularly relevant if not assessed together and quantified in connection with the entire risk category.

In the Banking Group, exposure to such risk category can be mainly originated by malfunctioning in working processes and in the organisational and governance structure – human mistakes, IT malfunctioning, deficiency in organisational and control safeguards – as well as in the loss, if any, of people holding key business management roles. Exposure to operational risks deriving from external drivers, on the contrary, is of little relevance, also in consideration of the mitigation instruments adopted to face such adverse events (such as, without limitation: business continuity plan, data storage processes, back up devices, insurance policies etc...).

The operation risks management and control process adopted is based on principles of promotion of a business culture aiming at managing risk and defining appropriate standards and inducements directed at adopting professional and responsible behaviours.
The operational risk assessment model adopted is "mixed", meaning that it is based both on qualitative evaluations, linked to process mapping, risky activity and relating controls in place, and qualitative evaluations, using the methodologies set forth by the Bank of Italy.

As part of the safeguards adopted with respect to operational risk exposure, the following specific risk are also monitored:

• Money-laundering Risk, concerning the risk that financial, commercial, providers, partners, associates and advisers counterparties of the Bank may be involved in transactions suitable, even potentially, to facilitate the laundering of money deriving from illegal or criminal activities;

• *Compliance risk*, concerning the risk of legal and administrative sanctions, relevant financial losses or reputational losses, due to the lack of compliance not only with laws and regulations but also with internal and conduct standards applicable to the business.

For the calculation of capital requirements on operational risk, the Banking Group adopts the Basic Indicator Approach *(BIA)*, by means of which the capital requirement is calculated applying a regulatory index to an indicator of the operation volume.
Operational risks connected to the introduction of new products, businesses, processes and relevant systems are, furthermore, taken into account, and the Banking Group mitigates the consequent rise of operational risk through the *ex-ante* involvement of Control Corporate functions and the definition of specific policies and regulations regarding different themes and matters.
Furthermore, to safeguard the above mentioned risks, specific organisational models for the management of money laundering risks, job health and safety and security of information are adopted.

Based on the above methodology, the capital requirement against operational risk is equal to 15,056 thousand euros as at 31 December 2013.

RISKS OF OTHER ENTERPRISES

The consolidated financial statements of the Banking Group aggregate the assets of the subsidiary Banca Farmafactoring S.p.A., of Farmafactoring España S.A. (company 100% owned by Banca Farmafactoring S.p.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 have been incorporated for securitisation transactions structured with Banca IMI, Deutsche Bank and Bayern LB, and have been included in the consolidation scope in presence of the circumstances provided by the SIC 12 interpretation. SIC 12 establishes the obligation to consolidate a company (Special Purpose Entity) also when, lacking a participation connection, a control relationship with the company preparing the financial statements in substance exist.

Such companies, therefore, do not present further and relevant risk factors, compared to what already set forth in the preceding paragraphs.

Table 2. Scope of application

Qualitative disclosure

a) *Name of the bank the disclosure obligations apply to.*

b) *Description of the differences in the consolidation areas relevant for prudential and accounting purposes, with a brief description of the entities within the group that: i) are fully consolidated; ii) are proportionately consolidated; iii) are deducted from regulatory capital; iv) are nor consolidated nor deducted.*

c) *Any legal or de facto impediment, present or foreseeable, obstructing the swift transfer of assets or funds within the group.*

d) *For groups, the reduction, if any, of individual capital requirements applied to the parent company and the Italian subsidiaries.*

Disclosure requirements set forth in this document, as provided for in the Bank of Italy's Circular No. 263 of 27 December 2006 – and subsequent updates - *"New prudential supervision provisions for banks"*, Title IV, Chapter 1, Section I, paragraph 4, refer to Banca Farmafactoring Banking Group, enrolled with the Banking Group Register, of which Banca Farmafactoring is the Parent Company.

The consolidation area for prudential purposes is defined by the Bank of Italy's Circular No. 115 of 7 August 1990 - and subsequent updates - *"Instructions for the preparation of supervisory reporting on a consolidated basis"*.

The relevant consolidation area for accounting purposes reflects the aggregation of assets of the controlling entity Banca Farmafactoring S.p.A., of Farmafactoring España S.A. (company 100% owned by Banca Farmafactoring S.p.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 have been incorporated for securitisation transactions structured with Banca IMI, Deutsche Bank and Bayern LB, and have been included in the consolidation scope in presence of the circumstances provided by the SIC 12 interpretation. SIC 12 establishes the obligation to consolidate a company (Special Purpose Entity) also when, lacking a participation connection, a control relationship with the company preparing the financial statements in substance exist.

All companies have been consolidated with the full consolidation method. All balances and transactions among companies of the Banking Group have been deleted from the preparation of the consolidated financial statements.

Please note that individual capital requirements of Banca Farmafactoring, against credit, counterparty, market and operations risks are reduced by 25%, in compliance with the provisions of Circular No. 263 of the Bank of Italy, which provides this possibility for banks belonging to banking groups.

The following chart described the most important information regarding the companies belonging to the group.

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

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

Quantitative disclosure

e) *Company names of all subsidiaries excluded from the scope of consolidation and aggregate amount of their capital deficiencies as compared with any mandatory capital requirements.*

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

Table 3. Composition of regulatory capital

Qualitative disclosure

a) *Summary information on the main terms and conditions of the features of each capital item and the relative components, especially innovative and non innovative equity instruments (see Title I, Chapter 2, Section I, Part 3) as well as the instruments to which grandfather clauses apply.*

Regulatory Capital represents the first safeguard against risks connected with the overall financial business, and represents the main reference parameter for considerations regarding capital adequacy.
Prudential regulations have the purpose of insuring that all credit intermediaries have a minimum mandatory capital availability depending on the risks taken.

Banca Farmafactoring Group constantly assesses its capital structure, developing and using supervised risk monitoring and management techniques, also availing itself of a Risk Committee as internal collegiate body in charge.
Under a Prudential Supervision point of view, capital absorption is determined considering current reporting "rules".

Regulatory Capital is comprised of Tier 1 Capital plus Tier 2 Capital, net of deductible items and IAS/IFRS prudential filters.

The most important elements comprising the Bank's Regulatory Capital are the following.

1. Tier 1 Capital
Tier 1Capital is comprised of the following positive items:
- Paid in Capital;
- Reserves (legal reserve, extraordinary reserve, preceding year profits);
- Profit share for the period.

And of the following negative item:
- Other intangible assets.

2. Tier 2 Capital
Tier 2 Capital is comprised of the following positive items:
- Valuation reserves: financial assets available for sale;
- Valuation reserves: actuarial profit (loss) relating to defined benefit pension plans;
- Valuation reserves: special revaluation laws.

From such items the following shall be deducted:
- Non accountable quota of the valuation reserve over financial assets available for sale.

3. Tier 3 Capital

As at 31 December 2013, the Regulatory Capital does not contain any asset accountable as "Third Level".

Quantitative disclosure

b) *Amount of Tier 1 capital, with separate disclosure of individual positive and negative items, in particular, of the innovative and non innovative capital instruments (see Title I, Chapter 2, Section I, Part 3) as well as the instruments to which grandfather clauses apply.*

c) *Amount of Tier 2 capital and Tier 3 capital.*

d) *Other negative items of regulatory capital, with separate disclosure – for banks adopting IRB systems – of any negative differences between total impairment losses and expected loss.*

e) *Amount of total regulatory capital.*

Tier 1 Capital	12.31.2013
Tier 1 Capital positive items	
Share Capital	130,900
Reserves	48,978
Profit share for the period	2,503
Total positive items of the Tier 1 Capital	**182,381**
Tier 1 Capital negative items	
Other intangible assets	1,122
Total negative items of the Tier 1 Capital	**1,122**
Tier 1 Capital gross of deductible items	**181,259**
Items to be deducted from Tier 1 Capital	0
Total TIER 1 Capital	**181,259**

Tier 2 Capital	12.31.2013
Tier 2 Capital positive items	
Valuation reserves - special revaluation laws	3,823
Valuation reserves - financial assets available for sale	396
Total positive items of the Tier 2 Capital	**4,219**
Tier 2 Capital negative items	
Non accountable quota of the valuation reserve - Financial assets available for sale	198
Other negative elements	1
Total negative items of the Tier 2 Capital	**199**
Tier 2 Capital gross of deductible items	**4,020**
Items to be deducted from Tier 2 Capital	0
Total TIER 2 Capital	**4,020**
Total Regulatory Capital (TIER 1 + TIER 2)	**185,279**

Tier 3 Capital	12.31.2013
Total Tier 3 Capital	**0**

Tier 3 Capital	12.31.2013
Regulatory Capital and Tier 3 Capital (TIER 1 + TIER 2 + TIER 3)	**185,279**

Table 4. Capital adequacy

Qualitative disclosure

a) *Summary description of the method adopted by the bank to assess the adequacy of its internal capital to support current and future operations.*

The Banking Group adopted appropriate corporate governance arrangements as well as adequate management and control mechanisms, for the purpose of facing the risks it is exposed to; such safeguards are comprised in the management and internal control system regime, aiming at insuring a management inspired by efficiency, effectiveness and fairness principles, covering any business risk type consistently with the features, size and complexity of the business carried out.

Under the Prudential Supervision profile, capital absorption deriving from supervised risk is determined on the basis of the legal provisions set forth by the Bank of Italy.

Compliance with capital adequacy thresholds, both as Tier 1 Capital Ratio and Total Capital Ratio, is constantly monitored by the competent corporate bodies.
The Tier 1 Capital Ratio is the results of the Tier 1 Capital divided by the risk weighted asset value.
The Total Capital Ratio is the results of the Total Capital divided by risk weighted assets.

Based on the provisions set forth by the Bank of Italy's Circular No. 262 del 22 December 2005 *"Banking financial statements: schemes and drafting rules"* and subsequent updates, the amount of risk weighted assets is determined as the product of the total prudential requirements and 12.5 (inverse of the minimum mandatory ratio equal to 8%)

The decrease of risk weighted assets, compared to the preceding year, mainly depends on the change by Banca Farmafactoring, of the reference ECAI, having the latter adopted, starting from the supervisory reporting as at June 2013, *Dominion Bond Rating Service (DBRS)* in replacement of *Moody's Investor Service*.

The unsolicited rating assigned to the Italian Republic by DBRS is *"A low"* and, accordingly, exposures towards the Public Administration fall within creditworthiness class 2, with a 50% weighting. Such value has been held to be more indicative – as opposed to 100% weighting, relating to creditworthiness class 3, fixed by *Moody's Investor Services* – for the actual risks to be assigned to the Public Administration's counterparties, currently representing more than 95% of the Banking Group's exposure.

Non-recourse receivables acquired by Farmafactoring España, are 20% weighted, since reference counterparties of such exposures are represented by the *"Comunidad"* (the Regions) and not by Public Administration Entities.

The overall risk exposure of the Banca Farmafactoring Group, as at 31 December 2013, with respect to the business carried out, has proven adequate when compared to the assets and the risk profile observed.
The Tier 1 Capital Ratio is equal to 21.0%, and the Total Capital Ratio to 21.5%.

1st Pillar – Capital adequacy against typical financial activity risks

Under a management profile, risk absorption is calculated by means of various methodologies:
- Credit ris → *"Standardized"* methodology;
- Counterparty risk → *"Standardized"* methodology;
- Operational risk → *"Basic"* methodology;
- Market risk → *"Standardized"* methodology.

Credit risk

The application of the "Standardized" method implies the partition of exposures in various classes ("portfolios"), on the basis of the counterparty's nature, and the application to each portfolio of diversified weighting ratios.
In particular, for the "Central administrations and central banks" portfolio, the weighting depends upon the rating assigned by ECAIs or by ECAs to the single States; for the "Supervised intermediaries" portfolio, the weighting depends upon the rating of the state in which the supervised intermediary has its registered office; for the "Public sector entities" portfolio, the weighting rules are the same as those provided for supervised intermediaries.
With respect to Regulatory Capital reporting and capital requirements, the External Credit Assessment Institution (ECAI) for exposures towards central administrations and central banks acknowledged by Banca Farmafactoring is "DBRS", with *"Unsolicited"* rating type.

For the calculation of credit risk, the Bank applies the following weighting factors established by the rules of the Bank of Italy on "Prudential Supervision":
- 0% for loans to central administrations and central banks;
- 20% for loans to territorial entities with registered office in a Member State of the European Union, denominated and financed in the local currency in light of the provisions of the 8th update of the Bank of Italy's Circular No. 263 *"New prudential supervision provisions for banks"*.
- 50% for loans to the Public Administration (including those claimed towards Agencies belonging to the National Healthcare System and the Local Healthcare System), except for exposures with original duration equal to or lower than three months, for which a weighting of 20% is applied;
- 50% for loans to supervised intermediaries except for exposures with original duration equal to or lower than three months, for which a weighting of 20% is applied;
- 100% for loans to private payors;
- 100% for tangible assets, holdings and other assets;
- 150% for Past Due Receivables.

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

Capital requirement = 8% RWA

The "Risk Weighted Amount" is determined by the sum of the "risk weighted" of the different classes.

Counterparty risk

Comprises a specific type of credit risk that gives rise to a loss if the transactions executed with a specific counterparty have a positive value upon default.
For Banca Farmafactoring, the counterparty risk is only embedded in the execution of derivative contracts for the hedging of interest rate fluctuation risk: applying the "Standardised" method the amount thereof is of little relevance.

Operational risk

The Group applies the "Basic" method to measure operational risk: the capital requirement is determined applying a 15% ratio to the three year average of brokerage margin deriving from the financial statements of the last three years, pursuant to the schemes of the Bank of Italy (see Circular No. 263 of 27 December 2006 – 13th update of 29 May 2012 *"New prudential supervision provisions for banks"*).

Market risk

The Group applies the "Standard" method to measure market risk, as described in Circular No. 263 of the Bank of Italy. The regime identifies and governs the treatment of various market risk types with reference to the trading portfolio for supervisory purposes. As at 31 December 2013, the only positions included in the trading portfolio for supervisory purposes are represented by interest rate derivative contracts that, although used with the exclusive purpose of hedging interest rate risk relating to receivable purchasing activity on a definitive basis, do not fall within the accounting concept of "hedging instrument".

2nd Pillar – ICAAP Report

Intermediaries are required to adopt a strategy and a capital adequacy control process, present and future, entrusting the Supervisory Authority with the task of verifying the reliability and consistency of the relative outcomes, and to adopt, where need be, the appropriate corrections.

The Banking Group submits by 30 April 2014 to the Bank of Italy the "ICAAP Report", as update of the risk management system aiming at determining capital adequacy.

Quantitative disclosure

b) *For banks calculating credit risk weighted exposures using the standardised method, the capital requirement for each regulatory exposure class.*

c) *For banks calculating credit risk-weighted exposure amounts using the IRB approach, the capital requirement for each regulatory exposure class.*
For retail exposures, separate disclosure should be made for each of the following categories: "exposures secured by residential property", "qualifying revolving retail exposures" and "other retail exposures". For equity exposures, disclosure should be made for:
i) *each of the methods envisaged (simple risk weight approach, PD/LGD approach, internal models approach); in the case of the simple risk weight approach, separate disclosure shall be made for the capital requirement for: a) exchange-traded exposures; b) private equity exposures in sufficiently diversified portfolios; c) other exposures;*
ii) *exposures subject to supervisory transition provisions regarding capital requirements;*
iii) *exposures subject to grandfathering provisions regarding capital requirements.*

d) *Capital requirement for counterparty risk.*

e) *Capital requirements for market risks with separate disclosure for:*
- assets comprised in the regulatory trading portfolio:
i) *position risk, with evidence of the specific risk relating to securitisation positions;*
ii) *concentration risk;*
- the entire financial statements:
iii) *regulatory risk;*
iv) *exchange rate risk;*
v) *commodity positions risk*

f) *Capital requirement for operational risks.*

g) *Total and Tier1 capital ratios.*

Capital requirement for counterparty risk

Portfolio /Exposures	Weighting drivers	Credit risk			Counterparty risk		
		Non weighted exposures	Weighted exposures	Capital requirem.	Non weighted exposures	Weighted exposures	Capital requirem.
Exposures towards central administrations and central banks *Creditworthiness class: 2*	0%	133,656	0	0			
Exposures towards territorial entities *Creditworthiness class: 2*	20%	62,878	12,576	1,006			
Exposures towards public sector entities *Creditworthiness class: 2*	20%	7,982	1,596	128			
	50%	1,036,676	518,338	41,467			
Exposures towards non-profit entities *Creditworthiness class: without rating*	100%	44	44	4			
Exposures towards supervised intermediaries *Creditworthiness class: 2*	20%	325,202	65,040	5,203	1	0	0
	50%	711	356	28	104	52	4
	100%	0	0	0	50	50	4
Exposures towards enterprises and other entities *Creditworthiness class: without rating*	100%	38,004	38,004	3,040			
Past due exposures	150%	8,367	12,551	1,004			
Other exposures *Creditworthiness class: without rating*	0%	1	0	0			
	100%	13,693	13,693	1,095			
Total		**1,627,214**	**662,197**	**52,976**	**155**	**102**	**8**

Capital requirements for market risks with separate disclosure for:
- assets comprised in the regulatory trading portfolio:
i) position risk, with evidence of the specific risk relating to securitisation positions;
ii) concentration risk;
- the entire financial statements:
iii) regulatory risk;
iv) exchange rate risk;
v) commodity positions risk.

	Weighted exposures	Capital requirement
Trading portfolio for supervisory purposes		
Position risk – OTC derivative contracts	11,163	893
Concentration risk	0	0
Entire financial statements		
Regulatory risk	0	0
Exchange rate risk	0	0
Commodity positions risk	0	0
Capital requirement against market risks	***11,163***	***893***

Capital requirement for operational risks.

Items/Values	Total 12.31.2013
Operational risk	**15,056**

Total and Tier1 capital ratios

Items/Values	Total 12.31.2013
***Tier 1 Capital Ratio* (%)**	**21.0%**
***Total Capital Ratio)* (%)**	**21.5%**

Table 5. Credit risk: general disclosure for all banks

Qualitative disclosure

a) *In addition to the general disclosure set out in Table 1, with respect to credit risk and dilution risk exposure, the following information shall be provided:*
i) *definitions of "past due" and "impaired" receivables used for accounting purposes;*
ii) *description of the methodologies adopted for determining impairment losses.*

Credit risk represents the possibility to incur losses due to counterparty's default and insolvency. It is linked to the possibility that an unexpected movement in the counterparty's credit worthiness, toward which an exposure exist, generates a correspondent decrease in the credit position value.

i) Pursuant to the Bank of Italy's Circular No. 262 of 22 December 2005 and subsequent updates *"Banking financial statements: schemes and drafting rules"* the definitions of which are established by the applicable Supervisory Reporting, as well as by the applicable Supervisory Reporting defined in the Bank of Italy's Circular No. 272 of 30 July 2008 and subsequent updates "Accounting Matrix", the Group divided between receivables towards "performing" and "impaired" clients.

"Performing assets" include:
• ***Past due non impaired exposures.*** Exposures past due since more than 90 days, that are not considered impaired pursuant to prudential regulations, and exposures past due and/or past since not more than 90 days, as defined in the Bank of Italy's Circular No. 272 of 30 July 2008 and subsequent updates "Accounting Matrix"
• ***Other exposures***.

"Impaired assets", include:

• ***Past due exposures.*** Comprise exposures towards central administrations and central banks, territorial entities, public sector entities, non-profit entities and enterprises that as at the reference date of 31 December 2013 are past due since more than 90 days.
• ***Restructured exposures.*** Comprise exposures for which an intermediary, due to the deterioration of the economic-financial situation of the payor, agrees to amend the original contractual terms, giving rise to a loss.
• ***Doubtful.*** Comprise exposures towards parties in a temporary situation of objective difficulty that is expected to pass within a suitable period of time.

Doubtful exposures include the so called "Objective doubtful", namely exposures with the following characteristics:
- do not belong to the "Central Administrations and Central Banks", "Territorial Entities" and "Public Sector Entities" portfolios;
- are past due on a continuous basis since more than 270 days;
- the aggregate amount of past due exposures represent a portion equal to at least 10% of the overall exposure;
• ***Non performing.*** Comprise exposures towards a defaulting party or a party in substantially similar situations, regardless to any loss forecasts made by the company.

ii) With respect to the methodology adopted for determining accounting impairment losses, Farmafactoring carried out an analysis over the receivable portfolio, aiming at identifying reductions, if any, in the value of proprietary financial assets.
Such analysis allowed the distinction between Performing Receivables and Non Performing Receivables, including in this latter category financial assets with loss risk at individual level, while the remaining financial assets have been considered Performing.
Performing receivables include those loans to clients for which, although past due since more than 90 days, show no objective loss indications at individual level.

Two different assessment approaches are adopted depending on the classification of the exposure.

With respect to Non Performing Receivables the Company, through internal assessments and external legal advice over single credit positions, determines possible impairment losses to be effected.

With respect to Performing Receivables, as in the previous years, upon every preparation of financial statements or interim reports, the Bank, pursuant to IAS 39, carried out a collective assessment *(impairment test)*, suitable to monitor quantitative contents.

In order to determine the "loss given default" (LGD), the Company adopted the value proposed by the "Basel Framework Scheme" for receivables not covered by collateral towards sovereign entities, enterprises and banks, equal to 45% of the ascertained "probability of default" (PD).
The collective assessment of the "probability of default" (PD) has been carried out assigning a rating to payors (ASL/AO) corresponding to that assigned to the relevant Region of the most important rating agencies.

Such analysis and the relating calculation procedure has been established upon adoption of the international accounting principles. Such calculation has never produced significant data, since the Probabilities of default (PD) assigned to Regions on the basis of the ratings led to a low impairment test outcome.

Starting from July 2012, the input parameters of the collective impairment model led, after the continues downgrades of the Republic of Italy and the consequent downgrades of the Regions occurred in the fourth quarter 2011, to the calculation of PDs higher than in the past and, accordingly, to collective impairment values no longer negligible. In particular, as at 31 December 2013, the impairment test highlighted an outcome equal to approximately 2 million euros. Such figure led to a further collective write-down, for the year, of approximately 217 thousand euros.

Quantitative disclosure

b) *Gross overall and average loan exposures referring to the reference period, broken down by main types of exposures and counterparties. The amount is net of permitted accounting set-offs, but does not take into account the effects of credit risk mitigation techniques.*

c) *Distribution for significant geographical areas of exposures, broken down by main types of exposures and, where necessary, further details.*

d) *Distribution for economic industry or type of exposure counterparty, broken down by type of exposure, and, where necessary, further details.*

e) *Distribution by residual contractual life of the entire portfolio, broken down by type of exposure (7), and, where necessary, further details.*

f) *For economic industry or type of relevant counterparty, the amount of:*
i) *impaired and past due exposures, separately indicated;*
ii) *aggregate impairment losses;*
iii) *impairment losses carried out in the reference period.*

g) *For significant geographical areas, the amount of: 1) Impaired and past due exposures, separately indicated; 2) impairment losses relating to each geographical area, where possible.*

h) *Dynamics of aggregate impairment losses for impaired exposures, broken down by specific and portfolio impairment losses. Information comprises:*
i) *the description of the procedures for determining impairment losses;*
ii) *initial balance of total impairment losses;*
iii) *cancellations carried out in the period;*
iv) *impairment losses carried out in the period;*
v) *impairment reversals recognized in the period;*
vi) *any other adjustment, for example due to exchange rate movements, corporate mergers, acquisitions and disposals of subsidiaries, including transfers between types of impairment losses;*
vii) *final balance of total impairment losses.*
Cancellations and impairment reversals directly posted to income statement are separately indicated.

Gross overall and average loan exposures referring to the reference period, broken down by main types of exposures and counterparties. The amount is net of permitted accounting set-offs, but does not take into account the effects of credit risk mitigation techniques.

	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						5			**5**
2. Available-for-sale financial assets						81,992			**81,992**
3. Financial assets held-to-maturity									
4. Due from banks						118,197		207,747	**325,944**
5. Receivables and loans	2,368	195		5,803	180,745	947,467			**1,136,578**
6. Financial assets measured at fair value through profit or loss									**0**
7. Financial assets held for sale									**0**
8. Hedging derivatives									
Total 12.31.2013	**2,368**	**195**		**5,803**	**180,745**	**1,147,661**		**207,747**	**1,544,519**

Distribution for significant geographical areas of exposures, broken down by main types of exposures and, where necessary, further details.
For significant geographical areas, the amount of: 1) Impaired and past due exposures, separately indicated; impairment losses relating to each geographical area, where possible.

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net expos.	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
A. Balance sheet exposure										
A.1 Non-performing										
A.2 Doubtful										
A.3 Restructured exposures										
A.4 Past due exposures										
A.5 Other exposures	116,493		1,704							
Total A	**116,493**		**1,704**							
B. Off-balance sheet exposure										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures	27									
Total B	**27**									
Total (A+B) 2013	**116,520**		**1,704**							

Exposures/ Geographical area	Italy		Other European countries		America		Asia		Rest of the world	
	Net exposure	Total impairm. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses	Net expos.	Total imp. losses
A. Balance sheet exposure										
A.1 Non-performing	2,368	2,267								
A.2 Doubtful	196									
A.3 Restructured exposures										
A.4 Past due exposures	5,803	625								
A.5 Other exposures	1,191,299	1,973	46,152							
Total A	**1,199,666**	**4,865**	**46,152**							
B. Off-balance sheet exposure										
B.1 Non-performing										
B.2 Doubtful										
B.3 Other impaired assets										
B.4 Other exposures										
Total B										
Total (A+B) 2013	**1,199,666**	**4,865**	**46,152**							

Distribution for economic industry or type of exposure counterparty, broken down by type of exposure, and, where necessary, further details.

For economic industry or type of relevant counterparty, the amount of:
(i) impaired and past due exposures, separately indicated;
(ii) aggregate impairment losses;
(iii) impairment losses recognised in the reference period.

Exposures/Counterparties	Governments			Other public sector entities		
	Net exposure	Specific impairment losses	Portfolio impairment losses	Net exposure	Specific impairment losses	Portfolio impairment losses
A. Balance sheet exposure						
A.1 Non-performing					955	
A.2 Doubtful						
A.3 Restructured exposures						
A.4 Past due exposures				5,798	625	
A.5 Other exposures	93,312		20	1,107,716		1,952
Total A	**93,312**		**20**	**1,113,514**	**1,580**	**1,952**
B. Off-balance sheet exposure						
B.1 Non-performing						
B.2 Doubtful						
B.3 Other impaired assets						
B.4 Other exposures						
Total B						
Total (A+B) 2013	**93,312**		**20**	**1,113,514**	**1,580**	**1,952**

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

Distribution by residual contractual life of the entire portfolio, broken down by type of exposure (7), and, where necessary, further details.

Timing distribution by residual contractual duration of the 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	**338,496**	**4,454**	**1,605**	**6,681**	**47,762**	**128,717**	**363,551**	**513,998**	**855**	
A.1 Government securities						12,554	448	68,000		
A.2 Other debt securities										
A.3 Units in investments funds										
A.4 Loans	338,496	4,454	1,605	6,681	47,762	116,163	363,103	445,998	855	
- due from banks	116,808	750				639				
- customers	221,688	3,704	1,605	6,681	47,762	115,525	363,103	445,998	855	

Dynamics of aggregate impairment losses for impaired exposures, broken down by specific and portfolio impairment losses. Information comprises:
i) the description of the procedures for determining impairment losses;
ii) initial balance of total impairment losses;
iii) cancellations carried out in the period;
iv) impairment losses carried out in the period;
v) impairment reversals recognized in the period;
vi) any other adjustment, for example due to exchange rate movements, corporate mergers, acquisitions and disposals of subsidiaries, including transfers between types of impairment losses;
vii) final balance of total impairment losses.
Cancellations and impairment reversals directly posted to income statement are separately indicated.

i) With respect to the procedure adopted for determining accounting impairment losses, Farmafactoring carried out an analysis on client portfolio, aiming at identifying any reduction in value of proprietary financial assets.

Such analysis allowed the distinction between Performing Receivables and Non Performing Receivables, including in this latter category financial assets with loss risk at individual level, while the remaining financial assets have been considered Performing.

The assessment of Performing Receivables includes those loans to clients for which, although past due since more than 90 days, show no objective loss indications at individual level.

Two different assessment approaches are adopted depending on the classification of the exposure. With respect to Non Performing Receivables the Company, through internal assessments and external legal advice over single credit positions, determines possible impairment losses to be effected.

With respect to Performing Receivables the Company, pursuant to IAS 39, carried out a collective assessment (*impairment test*), suitable to monitor quantitative contents. Such assessment gave rise to a lump-sum analytical adjustment of impaired exposures other than Non performing by approximately 16 thousand euros.

ii), iii), iv), v), and vii) Adjustments, value recoveries and deletions

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

Table 6. Credit risk: disclosure for portfolios subject to standardised approach and specialised lending and equity exposures subject to IRB approaches

Qualitative disclosure

a) *Banks calculating credit risk-weighted exposures according to the standardised approach, shall provide the following information for each regulatory asset class:*
i) name of the external credit assessment agency and export credit agency selected, as well as reasons for any changes;
ii) regulatory asset classes for which each external credit assessment agency or export credit agency is used;
iii) description of the process used to extend the credit ratings of the issuer or the issue to comparable assets not included in the regulatory trading portfolio.

Introduction

i) On 13 June 2013 Banca Farmafactoring's intention to avail itself, starting from the information flow as at 30 June 2013, of the evaluations issued by ECAI *Dominion Bond Rating Service (DBRS)*, in replacement of *Moody's Investor Service* has been notified to the Bank of Italy. Banca Farmafactoring's Board of Directors validated such decision in the meeting of 2 July 2013.

The unsolicited rating assigned to the Italian Republic by DBRS is *"A low"* and, accordingly, exposures towards the Public Administration fall within creditworthiness class 2, with a 50% weighting. Such value has been held to be more indicative – as opposed to 100% weighting, relating to creditworthiness class 3, fixed by *Moody's Investor Services* – for the actual risks to be assigned to the Public Administration's counterparties, currently representing more than 95% of the Banking Group's exposure.

ii) The Banca Farmafactoring Group uses the "Standardised" approach, and applies the selected ECAI's evaluations to the following portfolios:
In particular:
• for the "Central administrations and central banks" portfolio, the weighting depends upon the rating assigned by ECAIs *(External Credit Assessment Institution)* to the single States;
• for the "Supervised intermediaries" portfolio, the weighting depends upon the rating of the state in which the supervised intermediary has its registered office;
• for the "Public sector entities" portfolio, the weighting rules are the same as those provided for supervised intermediaries.

Quantitative disclosure

b) *Banks calculating credit risk-weighted exposures according to the standardised approach, shall provide, for each regulatory asset class, exposure values, with and without credit risk mitigation, connected to each creditworthiness class as well as the values of exposure deducted from regulatory capital.*

c) *For exposures subject to the regulatory risk weights in IRB approaches (specialized lending – equity exposures under the simple risk weight method), the exposures assigned to each credit risk class shall be provided.*

Exposure values are not subject to credit risk mitigation techniques.

Portfolio /Exposures	Weighting drivers	Credit risk		
		Non weighted exposures	Weighted exposures	Capital requirement
Exposures towards central administrations and central banks *Creditworthiness class: 2*	0%	133,656	0	0
Exposures towards territorial entities *Creditworthiness class: 2*	20%	62,878	12,576	1,006
Exposures towards public sector entities *Creditworthiness class: 2*	20%	7,982	1,596	128
	50%	1,036,676	518,338	41,467
Exposures towards non-profit entities *Creditworthiness class: without rating*	100%	44	44	4
Exposures towards supervised intermediaries *Creditworthiness class: 2*	20%	325,202	65,040	5,203
	50%	711	356	28
	100%	0	0	0
Exposures towards enterprises and other entities *Creditworthiness class: without rating*	100%	38,004	38,004	3,040
Past due exposures	150%	8,367	12,551	1,004
Other exposures *Creditworthiness class: without rating*	0%	1	0	0
	100%	13,693	13,693	1,095
Total		**1,627,214**	**662,197**	**52,976**

Table 9. Counterparty Risk

Qualitative disclosure

a) *Description:*

i) of the methodology used to assign operational limits defined in terms of internal and credit capital relating to credit exposures towards the counterparty;
ii) of policies regarding guarantees and evaluations of counterparty risk;
iii) of policies regarding exposure to wrong-way risk;
iv) of the impact, in terms of guarantees that should be provided by the bank, in case of downgrading.

Counterparty risk represents a specific type of credit risk that gives rise to a loss if the transactions executed with a specific counterparty have a positive value upon default.

For the Group, the counterparty risk is only embedded in the execution, by Banca Farmafactoring, of derivative contracts for the hedging of interest rate fluctuation risk: applying the "Standardised" method the amount thereof is of little relevance.

Such derivatives, not included in set-off agreements, are included in the trading portfolio for supervisory purposes since, although used with the exclusive purpose of hedging interest rate risk relating to receivable purchasing activity on a definitive basis, do not fall within the accounting concept of "hedging instrument".

As at the reference date there are no credit derivative outstanding.

As also referred in the preceding tables, the reduced exposure to counterparty risk does not require the use of control instruments besides those dedicated to ordinary management.

Quantitative disclosure

b)
- *i) gross positive fair value of contracts;*
- *ii) reduction of positive gross fair value due to set-off;*
- *iii) positive fair value net of set-off agreements*
- *iv) collateral held;*
- *v) positive fair value of derivative contracts net of set-off agreements and guarantee agreements;*
- *vi) extent of EAD, or of the value of the counterparty risk exposure, calculated according to the methods used (internal, standardised, present value models);*
- *vii) notional value of credit derivatives hedging counterparty risk;*
- *viii) distribution of positive fair value of contracts for type of underlying*

The capital requirement regarding derivative contracts is equal to, as at the reference date, approximately 8 thousand euros.
The respective RWAs amount to 102 thousand euro, equal to a non-weighted exposure of 155 thousand euros.

Financial derivatives: gross positive fair value – divided by product

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

OTC financial derivatives – regulatory trading portfolio: notional value, gross positive and negative fair values per counterparties – agreements not falling under set-off agreements

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

Table 10. Securitisation transactions

Qualitative and quantitative disclosure

a)

i) description of the bank's objectives in relation to securitisation activities;
ii) nature of the risks, including liquidity risk, inherent in securitisation activities;
iii) for re-securitisation exposures retained or purchased, the type of risks in terms of:
- degree of exposure subordination to underlying securitizations;
- assets underlying such exposures to securitization;
iv) roles played by the bank in the securitisation process and, for each of them, indication of the extent of the bank's involvement;
v) description of the processes in place to monitor changes in the credit and market risks of securitization exposures (e.g. the way in which the underlying assets affect such exposures) and how these processes differ for re-securitisation exposures;
vi) description of the bank's risk mitigation policies for risks inherent to securitization and re-securitisation exposures, including indication of the main suppliers of protection for each type of risk;
vii) indication of the methods applied by the bank to securitization activities to calculate the amounts of risk-weighted exposures (standardized method, ratings-based approach, supervisory formula approach, internal assessment approach), including the types of securitisation exposures to which each approach applies;
viii) the types of SPEs that the bank, as a promoter, uses to securitise third-party exposures, including if, in what form and to what extent, the bank has exposures with such SPEs, distinguishing between on and off-balance sheet exposures;
ix) list of the entities that the bank manages or advises and that invest in securitization exposures of assets that the bank has securitised or in SPEs that the bank promotes.

b)

Summary of the bank's accounting policies for securitisation activities, including:
i) whether the transactions are treated as sales or financings;
ii) recognition of gain on sale;
iii) methods, assumptions, basic data and changes from the previous period for the measurement of exposures;
iv) treatment of synthetic securitizations, if not covered by other accounting policies (e.g. derivatives);
v) measurement criteria of the assets intended to be securitised and whether they are or are not allocated in the regulatory trading portfolio;
vi) accounting policy regarding agreements requiring the bank to provide financial support for securitised assets (e.g. recognition of liabilities in the financial statements).

c)

Name of the external credit assessment agencies used for securitisations and the types of exposures for which each agency is used.

d) *Description of the "internal assessment approach" process, including:*
- internal assessment process; - the relationship between internal assessment and external ratings;
- use of internal assessments other than for the calculation of capital requirements;
- control mechanisms for the internal assessment process, including the analysis of independence, accountability and internal assessment process review;
- exposure type to which the internal assessment process is applied;
- stress factors used for determining credit enhancement levels, by exposure type.

e) *Explanation of significant changes in any quantitative information indicated in letters f) to h) since the last reporting period.*

f) *Indication of the following information separately by exposure type:*
i) total amount of exposures securitised by the bank as the originator, broken down into traditional and synthetic, and those in which the bank takes part solely as a promoter;
ii) total amount of securitisation exposures on and off-balance sheet;
iii) total amount of assets intended to be securitised;
iv) for securitisations with revolving exposures subject to early amortisation clauses: the aggregate drawn exposures attributed to the assignor's and investors' interests; the aggregate capital requirements of the bank against its retained (i.e. the assignor's) shares of the drawn balances and undrawn lines; and the aggregate capital requirements of the bank against the investor's shares of drawn balances and undrawn lines;
v) amount of securitisation exposures deducted from regulatory capital or the amount to which a 1250% risk-weighted factor is applied;
vi) summary of current year's securitisation activity as the originator, including the amount of underlying assets, in addition to the recognised gain or loss on sale.

g) *i) Aggregate amount of securitisation exposures retained or purchased and the associated capital requirements, broken down between securitisation and re-securitisation exposures and further subdivided into a meaningful number of risk-weighted bands or capital requirements for each regulatory capital approach used (e.g. standardized approach, supervisory formula approach, etc.);*
ii) aggregate amount of re-securitisation exposures retained or purchased broken down by:
- exposures to which credit risk mitigation techniques are applied and those not applied;
- exposures to guarantors by creditworthiness categories or by guarantor name.

h) *Only for exposures allocated in the banking portfolio and for assets securitised by the bank, the amount of underlying impaired assets securitized and the losses recognized by the bank during the current period, both broken down by exposure type.*

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

Qualitative disclosure

Strategies, processes and goals

In December 2013, the securitisation transaction that the Company, during the second semester of 2011, had carried out with Banca IMI, has been renewed for further 18 months (expiry January 2016), providing for the non-recourse assignment of the receivables towards Local Healthcare Agencies and Hospitals, aiming at diversifying funding activities.

Features of the transaction

The receivables are assigned to FF Finance S.r.l., SPV under Law No. 130/99, which finances the purchase thereof by means of issuance of securities.

In the 18 months of the revolving phase of the transaction, revolving assignment will be effected against payments on the receivables, for the purpose of maintaining the collateral ratio contractually agreed.
At the end of the revolving period, a 6 month amortisation period will follow, during which no further assignments will be made.

Description of the risk profile

Banca Farmafactoring remains involved, as originator, in the securitisation activity, even if the assignment of receivables is made on a definitive basis.
The transaction provides for a credit enhancement mechanism, through an overcollateralisation ratio (equal to 129.30% of the amount of securities issued, as at 31.12.2013) and the subordinated loan on the side of Banca Farmafactoring.
The vehicle, by exercising a put-option, has also the option to regress to Banca Farmafactoring any outstanding receivable as at the payment date of 25 January 2016.
Given the above, all risks and benefits of the transaction have not been transferred to the assignee, but remain within Banca Farmafactoring, so that the securitisation risk is comprised in the credit risk.

Quantitative disclosure

Type of financial instruments held

In December 2013 the transaction has been renewed.
Contextually, the structure of the securities has been reviewed and they now present a flexible structure, on the basis of which it will be possible, compatible with the Company's funding needs, to redeem the securities in case of excess of liquidity in the Vehicle and, upon request, also proceed with a new issuance for a maximum amount equal to the securities held by Duomo Funding Plc.

In January 2014 the downsizing of the program has been formalised, from original 200 million euros to 100 million euros.
The entire position held by Banca Farmafactoring, equal to 100 million euro, has been redeemed, purchased during the second semester by Compass, conduit vehicle of WestLB Group.

Sub-servicer activity
Banca Farmafactoring, as collection agent, carried out, on behalf of the Servicer Zenith Service S.p.A., the recovery and collection activity of receivables.

With respect to all assignments of receivables carried out by the vehicle FF Finance S.r.l., as at 31 December 2013 the Company managed an outstanding nominal value of approximately 120.3 million euro.

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

Qualitative disclosure

Strategies, processes and goals
In October 2013, the securitisation transaction with the Deutsche Bank group has been renewed: it is a transaction envisaging a non-recourse assignment of receivables towards Local Healthcare Agencies and Hospitals, aiming at diversifying funding activities.

Features of the transaction
The receivables are assigned to a vehicle under Law No. 130/99, namely Farmafactoring SPV I S.r.l., which finances the purchase thereof by means of issuance of securities for an amount of 150 million euros, underwritten by Deutsche Bank AG.
The renewed structure provides for a 12 months revolving period. In the 12 months of the transaction, revolving assignments will be effected against payments on the receivables, for the purpose of maintaining the collateral ratio contractually set out.
At the end of the revolving period, a amortisation period will follow linked to the residual life of outstanding receivables until full redemption of the securities.

Description of the risk profile
Banca Farmafactoring remains involved, as originator, in the securitisation activity, even if the assignment of receivables is made on a definitive basis.
The transaction provides for a credit enhancement mechanism, through an overcollateralisation ratio (equal to 133.33% of the amount of securities issued) and the subordinated loan on the side of Banca Farmafactoring.

At the end of the transaction, after redemption of the securities and repayment of other senior expenses of the transaction, all residual amounts originated from payments on the assigned receivables, also on account of delay interests, will be due to Banca Farmafactoring as underwriter of the subordinated loan. As a result of such condition, in addition to the Company's option to repurchase and/or replace receivables at any time, all risks and benefits of the transaction have not been transferred to the assignee, but remain within Banca Farmafactoring, so that the securitisation risk is comprised in the credit risk.

Quantitative disclosure

Type of financial instruments held
Banca Farmafactoring does not hold any financial instrument in connection with the transaction.

Sub-servicer activity
Banca Farmafactoring, as collection agent, carried out, on behalf of the Servicer Zenith Service S.p.A., the recovery and collection activity of receivables.

With respect to all assignments of receivables carried out by the vehicle Farmafactoring SPV I S.r.l., as at 31 December 2013 the Company managed an outstanding nominal value of approximately 141.5 million euros.

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

Qualitative disclosure

Strategies, processes and goals
During the first quarter of 2013, the securitisation transaction that the Company set up with the Arranger Banks BayernLB AG has taken place: it is a transaction with scheduled duration of 30 months, with non-recourse assignment of receivables towards Local Healthcare Agencies and Hospitals, aiming at diversifying funding activities.

Features of the transaction
The receivables are assigned to a vehicle under Law No. 130/99, namely Farmafactoring SPV II S.r.l., which finances the purchase thereof by means of issuance of securities for an amount of 70 million euros, entirely underwritten by CORELUX, conduit vehicle belonging to the BayernLB group, using liquidity provided by da BayernLB AG.

The structure provides for an 18 months revolving period of the transaction (renewable, if the case, on a yearly basis), through revolving assignments against payments on the receivables, for the purpose of maintaining the collateral ratio contractually set out.

At the end of the revolving period, a 12 month depreciation period will follow, during which no further assignments will be made.

Description of the risk profile
Banca Farmafactoring remains involved, as originator, in the securitisation activity, even if the assignment of receivables is made on a definitive basis.
The transaction provides for a credit enhancement mechanism, through an overcollateralisation ratio (equal to 129.87% of the amount of securities issued) and the subordinated loan on the side of Banca Farmafactoring.
The vehicle, by exercising a put-option, has also the option to regress to Banca Farmafactoring any outstanding receivable as at the 30th of each month.
Given the above, all risks and benefits of the transaction have not been transferred to the assignee, but remain within Banca Farmafactoring, so that the securitisation risk is comprised in the credit risk.

Quantitative disclosure

Type of financial instruments held
Banca Farmafactoring does not hold any financial instrument in connection with the transaction.

Sub-servicer activity
Banca Farmafactoring, as collection agent, carried out, on behalf of the Servicer Zenith Service S.p.A., the recovery and collection activity of receivables.

With respect to all assignments of receivables carried out by the vehicle Farmafactoring SPV II S.r.l., as at 31 December 2013 the Company managed an outstanding nominal value of approximately 57.7 million euros.

Aggregate quantitative disclosure

Here below is provided the disclosure under IFRS principle No. 7, paragraph 42D, letter a), b), c), regarding the nature of transferred assets, the relationship among them and connected liabilities as well as relating risks, that the Bank is exposed to.

As indicated above, as at 31 December 2013 the following securitisation transactions are in place over healthcare receivables assigned and not derecognized from assets, since the assignment did not imply the derecognition thereof, meaning the transfer of risks and benefits:

• in June 2011 the structured securitisation transaction with Banca IMI has begun, in which receivables are assigned to the vehicle FF Finance S.r.l. and not derecognised from assets. With respect to this transaction, the gross value of securities assigned and not derecognised from the financial statements assets, amounts to 116,332 thousand euros;

• in October 2012 a structured securitisation transaction with Deutsche Bank has begun. Similarly to the transaction with the vehicle FF Finance S.r.l., receivables are assigned to the vehicle Farmafactoring SPV I S.r.l., and not derecognised from assets. With respect to this transaction, the gross value of securities assigned and not derecognised from the financial statements assets, amounts to 136,001 thousand euros;

• in the first quarter of 2013 a further healthcare receivable securitisation has been structured with BayerLB. Similarly to the preceding transactions, receivables are assigned to the vehicle Farmafactoring SPV II S.r.l., and not derecognised from assets. With respect to this transaction, the gross value of securities assigned and not derecognised from the financial statements assets, amounts to 56,224 thousand euros.

Being such receivables posted as assets of the Company, they are included in the calculation of the credit risk requirement.
In particular, being such exposures towards "Public sector entities", the weighting applied will be 50%, except for exposures with original term equal to or less than three months, for which a weighting of 20% is applied.

Banking Group – Financial assets assigned and not derecognised: book value and full value

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

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

Financial liabilities against financial assets assigned and not derecognised: book value

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

Table 12. Operational risk

Qualitative disclosure

a) *Description of the method used to calculate capital requirements against operational risk.*

b) *Description of advanced methods to measure operational risk (AMA), where used by banks, including a description of relevant internal and external factors taken into account in the method adopted. In case of partial use of the AMA, the scope of application and the coverage degree of the different methods used shall be indicated.*

c) *For banks using AMA, description of any use of insurance coverage and other risk transfer instruments for the purpose of mitigating operational risk.*

Operational risk is the risk of incurring losses deriving from deficiency or malfunctioning of procedures, people and internal systems, or external events. Such type include, inter alia, losses deriving from frauds, human mistakes, interruptions of operations, unavailability of systems, breaches of contracts, natural disasters; operational risk comprises legal risk, which does not comprise strategic and reputational risks.
Operational risk, therefore, refers to various type of events that would not be singularly relevant if not jointly assessed and quantified in connection with the entire risk category.

In the Banking Group, exposure to such risk category can be mainly originated by malfunctioning in working processes and in the organisational and governance structure – human mistakes, IT malfunctioning, deficiency in organisational and control safeguards – as well as in the loss, if any, of people holding key business management roles. Exposure to operational risks deriving from external drivers, on the contrary, is of little relevance, also in consideration of the mitigation instruments adopted to face such adverse events (such as, without limitation: business continuity plan, data storage processes, back up devices, insurance policies etc…).

The operational risk management and control process adopted is based on principles of promotion of a business culture aiming at managing risk and defining appropriate standards and inducements directed at adopting professional and responsible behaviours.

The operational risk assessment model adopted is "mixed", meaning that it is based both on qualitative evaluations, linked to process mapping, risky activity and relating controls in place, and qualitative evaluations, using the methodologies set forth by the Bank of Italy.

As part of the safeguards adopted with respect to operational risk exposure, the following specific risk are also monitored:

- Money-laundering risk, concerning the risk that financial, commercial, providers, partners, associates and advisers counterparties of the Bank may be involved in transactions suitable, even potentially, to facilitate the laundering of money deriving from illegal or criminal activities;

- Compliance risk, concerning the risk of legal and administrative sanctions, relevant financial losses or reputational losses, due to the lack of compliance not only with laws and regulations but also with internal and conduct standards applicable to the business.

For the calculation of capital requirements on operational risk, the Banking Group adopts the Basic Indicator Approach *(BIA)*, by means of which the capital requirement is calculated applying a regulatory index to an indicator of business operation volume.

Operational risks connected to the introduction of new products, businesses, processes and relevant systems are, furthermore, taken into account, and the Banking Group mitigates the consequent rise of operational risk through the *ex-ante* involvement of Control Corporate functions and the definition of specific policies and regulations regarding different topics and matters.

Furthermore, to safeguard the above mentioned risks, specific organisational models for the management of money laundering risks, job health and safety and security of information are adopted.

Based on the above methodology, the capital requirement against operational risk is equal to 15,056 thousand euros as at 31 December 2013.

Table 14. Interest rate risk on positions in the banking portfolio

Qualitative disclosure

a) *i) Nature of interest rate risk;*
ii) basic assumptions used in measuring and managing the risk, in particular with reference to loans with early redemption option and the dynamic of open term deposits;
iii) measurement frequency of this type of risk.

For the purpose of evaluating interest rate risk, the Banking Group looks at the methodology set forth in prudential regulations (Annex C – Circular No. 285 of the Bank of Italy). Such methodology is applied on a monthly basis, for the purpose of observing on a prompt and continuous basis any loss of value compared to:
• a market shock determined on the basis of annual interest rate fluctuations registered in a six years observation period;
• a 200 basis point interest rate shock.

The sensitivity analysis to interest rate implies the establishment of a management framework allowing to highlight exposure, represented:
• for liabilities, by the overall financing amount reassessed on the basis of the single draw down tranches maturities and the exposure to derivatives;
• for assets, by loans represented by the exposure for purchasing non-recourse receivables, the payments of which are estimated based on payors' payment time statistics, and adjusted on the basis of settlement agreements, if any, with the single regions and/or with relevant payors, or adjusted after asset transfers.

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, active positions are set-off with passive positions, obtaining a net position. Each net position, for each time slot, is multiplied by the weighting factors, obtained as the product between an 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: weighted positions of the various slots are added together, obtaining a total weighted exposure.

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

Quantitative disclosure

b) *In line with the interest rate risk measurement method adopted by the management, the increase/reduction of profits or economic capital (or other relevant indicators) – broken down by main currencies (1) – in case of upward or downward rate shock.*

The situation deriving from the application of the interest rate risk management framework, as at 31 December 2013, outlines a potential loss in the present value of cash flows, in case of market shock, equal to 7 million euros, and in case of +200 basis point shock, of 9.6 million euros.

The application of a downwards scenario of interest rates, causes the increase of the present value of cash flows.

Rate risk as at 31 December 2013
[Euro/000]

Maturity	ASSETS	LIABILITIES	Delta	SHOCK (market)	Weighted value
On sight and upon	116,808	-	116,808	0.00%	-
revocation up to 1 month	124,481	(25,621)	150,103	0.04%	55
from more than 1 month to 3 months	263,120	319,500	(56,380)	0.14%	(80)
from more than 3 months to 6 months	292,050	290,000	2,050	0.32%	7
from more than 6 months to 1 year	219,377	58,000	161,377	0.71%	1,148
from more than 1 year to 2 years	212,408	30,000	182,408	1.32%	2,399
from more than 2 years to 3 years	66,099	-	66,099	2.14%	1,412
from more than 3 years to 4 years	36,436	-	36,436	2.72%	990
from more than 4 years to 5 years	20,951	-	20,951	3.08%	644
from more than 5 years to 7 years	12,284	-	12,284	3.56%	437
from more than 7 years to 10 years	-	-	-	3.55%	-
from more than 10 years to 15 years	-	-	-	4.54%	-
from more than 15 years to 20 years	-	-	-	5.85%	-
More than 20 years	-	-	-	6.91%	-
	1,364,016	671,879			

TOTAL WEIGHTED VALUE (TWV)	7,012
REGULATORY CAPITAL AS AT 31.12.2013	**185,279**
RISK INDEX (TWV/LoV))	3.8%

Table 15. Remuneration and incentive systems and practices

Qualitative disclosure

a) *Information regarding:*
i) the decision making process followed to define remuneration policies including, if the case, details on the composition and mandate of the "Remuneration committee", any external advisor the services of which the bank availed itself of, and the role of concerned bodies and functions;
ii) the procedures through which the linkage between remuneration and results is insured;
iii) most important characteristics of the remuneration system, among which the criteria used to assess results, the adjustment to risks, deferral policies with specific reference to ex post adjustment mechanisms for risks;
iv) performance indicators taken as reference base for the variable remuneration, including stock, option or other financial instrument based plans;
v) the reasons underlying the selection of variable remuneration systems and any other non-monetary performance and the main parameters used.

Remuneration policy definition

Remuneration and incentive policies of the Banca Farmafactoring Group have been defined in line with the principle of prudential risk management and long term strategies of the Group and its components, providing for a correct balance between fixed elements and variable elements of the remuneration and, with respect to the latter, risk weighting systems and mechanisms aiming at insuring the linkage of remuneration to actual and lasting results.

The Board of Directors:
- is responsible for the correct implementation of the remuneration policy;
- reviews at least on a yearly basis the remuneration policy;
- guarantees that the remuneration policy is adequately documented and accessible within the corporate structure.

The CEO shall implement remuneration and incentive policies, on the basis of the resolutions adopted, in this respect, by the Board of Directors.
For the purpose of defining guidelines for corporate remuneration and incentive systems adopted by the Bank and their periodic evaluation, the Board of Directors established, on 25 January 2013, the Remuneration Committee, advisory and proposal body.
Furthermore, the implementation of the remuneration policies adopted is subject, at least on a yearly basis, to verification by the supervisory functions, each according to the respective tasks, for the purpose of insuring the adequacy and compliance with applicable laws and regulations of the remuneration policies and practices adopted and their correct operation.

In particular:

• the compliance function expresses an ex ante evaluation over compliance of remuneration policies to the reference legislative framework and ex post verifies, among others, that the corporate reward system is line with the compliance goals with provisions of law, By-laws as well as any ethical code or other applicable conduct standards, so that legal and reputational risks are adequately restricted;

• the internal review function verifies, at least on a yearly basis, compliance of remuneration practices with approved policies and reference laws and regulations.

Remuneration policy setting process of the Banca Farmafactoring Group also provides for the involvement of the following functions:

• *Employee and General Services*: analyses the remuneration and incentive policy, verifying the criteria for the selection of the most important employees as well as goals, bonus activation grids and operation rules;

• *Risk Management*: supports the selection of the most important employees providing indications on present and future risk profile in line with the ICAAP analysis, also on a consolidated basis;

• *Management and Control*: insures the accounting documents supporting summary economic-financial performances are true and accurate.

Selection of "most important employees"
The Banca Farmafactoring Group identified the "most important employees" through a self-assessment process carried out on the basis of what provided for by the applicable laws, the regulation governing organisational Units' tasks, business procedures, the work task table and single proxies.

Accordingly, having considered the existing autonomy levels and the impact on the business, the following persons a have been selected as "most important employees", generating/assuming or controlling risk:
• CEO;
• Vice President of the Operations Department;
• Vice President of the Finance Department;
• Vice President of the Management and Control Department;
• Director of Planning and Development;
• Head of Internal Control Function;
• Head of Risk Management, Compliance and AML Function;
• Head of Employee and General Service Function;
• Head of ICT Function;
• General Manager of Farmafactoring España S.A.

Remuneration components

Fixed and variable components

Remuneration and incentive policies of the Banca Farmafactoring Group have been defined providing for a correct balance between fixed elements and variable elements of the remuneration and, with respect to the latter, risk weighting systems and mechanisms aiming at insuring the linkage of the remuneration to actual and lasting results.

Parameters used to determine the variable component of the remuneration are well defined and shared with those entitled to it. Criteria on which evaluations are based are clear and predetermined and the decision making process is adequately documented and available to any interested party. The liquidation of the variable component, both up front or deferred, is in any case conditional upon compliance with the capital requirement goal (Core Tier 1) on a consolidated basis and is paid in cash.

In summary, remuneration policies adopted by the Bank are as follows:

a. directors are entitled to a gross remuneration per year, determined by the Shareholders' Meeting for the participation to the Board of Directors meetings and the repayment of expenses actually incurred in carrying out their functions. Under no circumstances non-executive Directors are entitled to remuneration linked to the achievement of profitability ratios or profits of the Group. All Directors are entitled to a "civil liability" insurance policy;

b. the Chairman of the Board of Directors is entitled to a gross remuneration per year, determined by the Shareholders' Meeting, linked to the tasks and responsibilities assumed by the same, as well as on account of repayment of the expenses uncured in carrying out its tasks. The same is not entitled to remuneration linked to the achievement of profitability ratios or profits of the Group.

c. the CEO is entitled to:
• a fixed component inclusive of benefits;
• a variable component linked to the achievement and exceeding of the economic goal provided in the budget and the maintenance of predefined values of Core Tier 1, the pay-out being determined by the Board of Directors;

d. the Board of Statutory Auditors members are entitled to a remuneration decided by the Shareholders' Meeting. Nor Statutory Auditors are entitled to variable compensation, except for specific benefits not relevant in value. Statutory Auditors are entitled to a "civil liability" insurance policy;

e. employees are entitled to an economic treatment based on the guidelines provided by the CEO and the responsible Function, defined in line with the remuneration and incentive policy of the Group and with applicable contractual provisions (in particular, based on the CCNL for executives and professional areas employees employed by credit, financial and servicing companies, and the CCNL for managers employed by credit, financial and servicing companies and similar collective agreements under Spanish law). It is typically comprised of a fixed portion, meaning stable and not random, and a variable portion, that can be reduced even to zero depending on economic results. Specific benefit packages are, furthermore, provided for homogeneous population targets;

f. in particular, the "most important employees" (see paragraph 3 of this document), are entitled to a fixed component rewarding the role and extent of responsibilities held and an incentive component, aiming at rewarding results achieved establishing a linkage between remunerations and actual results in the short and medium-long term of the Group considered as a whole, of the company and of the person. Payment of the variable component depends upon, besides the achievement of economic results, compliance with the capital requirement goal (Core Tier 1) on a consolidated basis.

g. Supervisory Body members, who are not employees of the Banks, are entitled to a fixed remuneration decided by the Board of Directors, on the basis of market conditions and responsibilities assumes. Under no circumstances they are entitled to a variable remuneration linked to the Group's, Bank's or the same Body's results.

The Board of Directors has the power to grant directors with specific proxies, indicating the remuneration granted to them for the performance of such proxies.

The calculation basis for the fixed/variable component ratio is represented by the GAS (Gross Annual Salary) and the "business" cost of the benefits awarded.

The limit of the impact of the variable component on the fixed component has been determined following a global compensation rational *(paymix)* and in compliance with the principle of continuity with the past and consistency among different roles and responsibilities, without neglecting comparison with the market.

Benefit

Employees are entitled to specific benefit packages, for homogenous population targets, that may include, among others, healthcare assistance, supplementary pension, some insurance coverage and business car.

Early termination of the relationship

Finally, please note that the treatment applied in case of termination of the employment relationship is that provided for by industry collective agreements.
The Board of Directors of the Parent Company may determine *"golden parachutes"* in case of early termination of the employment relationship or termination of the role, in compliance with the conditions set forth by the applicable laws and regulations.

Quantitative disclosure

b) *Aggregate information on remuneration, broken down by:*

i) Business areas;

ii) Categories of "most important employees", with indication of the following elements:
- *remuneration amounts for the year, broken down by fixed and variable component and number of beneficiaries;*
- *amounts and forms of the remuneration variable component broken down by cash, equity, equity linked securities and other types;*
- *deferred remuneration amounts, broken down by portions already granted and not yet granted;*
- *deferred remuneration amounts granted throughout the financial year, paid and reduced through results adjustment mechanisms;*
- *new payments for beginning of employment and severance treatments effected throughout the year and number of respective beneficiaries;*
- *payment amounts for severance treatment granted throughout the year, number of beneficiaries and highest amount granted to a single person.*

Remuneration for the 2013 financial year

Figures set out below refer to the remunerations paid throughout the 2013 financial year by Banca Farmafactoring Group, both on account of fixed and variable components, broken down by different categories of recipients.

Role	N° recipients	Fixed remuneration	Variable remuneration 2013	Deferred portion of variable remuneration 2013	Deferred portion of variable remuneration referring to other financ. years and paid in 2013
Executive directors with specific proxies	3	960	400	-	-
Chairman and other Directors	4	240	-	-	-
Statutory Auditors	3	222	-	-	-
Head of main business functions	5	930	702	189	-
Head of control Functions	4	579	357	107	-
Total		**2,931**	**1,460**	**296**	**-**

ideogramma.it

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

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

info@bancafarmafactoring.it
www.bancafarmafactoring.it