

FARMAFACTORING^{SPA}

Pillar III Disclosure

2011

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INTRODUCTION

Circular 216 of August 5, 1996 – 7th update of July 9, 2007¹ “*Supervision Instructions for the Financial Intermediaries registered in the Special List*” issued by Bank of Italy requires financial intermediaries registered in the Special List under art. 107 TUB to abide by specific obligations for the periodical disclosure of information regarding capital adequacy, risk exposure and the general characteristics of the systems designed for their identification, measurement and management.

This report, which includes five Tables, provides qualitative and quantitative disclosure as at December 31, 2011.

Farmafactoring does not publish the Tables without any disclosure content.

The word “Company” as used in this report is synonymous with Farmafactoring.

Farmafactoring publishes the disclosure requirements annually on its website:
www.farmafactoring.it

[1] See First Part, Chapter V, Section XII, page 1 – Disclosure.

TABLE 1. CAPITAL ADEQUACY

QUALITATIVE DISCLOSURE

a) Farmafactoring constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing regulated risks, assisted also by its internal Risks Committee which is charged with lending support to the board of directors.

From the standpoint of prudential supervision, the absorption of capital deriving from regulated risks is determined on the basis of the current reporting regulations of Bank of Italy.

Regulatory capital is the first line of defense against risks associated with overall financial activities and constitutes the main parameter of reference for the assessment of the capital adequacy of the Company.

Regulatory capital of the Company is composed of Tier 1 Capital and Tier 2 Capital, net of items to be deducted and prudential filters.

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

The Tier 1 Capital Ratio is given by the ratio of Tier 1 capital to the amount of risk-weighted assets. The Total Capital Ratio is given by the ratio of regulatory capital to the amount of risk-weighted assets.

Risk-weighted assets are determined as the product of the total capital requirements and 16.67 (the inverse of the minimum obligatory ratio of 6%).

For "Pillar I" risks, the Company uses the "Standardized" approach for the measurement of credit risk and the "Basic" indicator approach for operational risk.

As concerns risks not included in "Pillar I", and with particular reference to the risk of fluctuations in interest rates, the Company uses adequate organizational controls and internal methodologies. In particular, through the Risks Committee, the Company analyzes on a quarterly basis every type of risk that can be relevant in relation to the business and adopts the most appropriate containment solutions.

In order to measure the overall internal capital, the Company adopts a building block approach which calls for determining the internal capital relating to the individual risks.

Farmafactoring's total exposure to risks at December 31, 2011, and prospectively at December 31, 2012, relevant in relation to its business, is more than adequate on the basis of the level of capital and the profile of risk identified.

QUANTITATIVE DISCLOSURE

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

b) *Credit risk capital requirement.*

Items / Amounts	Total 12.31.2011
Credit risk	49,946

c) *Market risk capital requirement.*

Not applicable. The Company does not have a trading portfolio.

d) *Operational risk capital requirement.*

Items / Amounts	Total 12.31.2011
Operational risk	13,483

e) *Amount of regulatory capital divided between:*i) *TIER 1 capital*

Items / Amounts	Total 12.31.2011
TIER 1 capital before application of prudential filters	177,463
Prudential filters of TIER 1 capital	-
TIER 1 capital before items to be deducted	177,463
Items to be deducted from TIER 1 capital	(3,147)
Total TIER 1 capital	174,316

ii) *TIER 2 capital*

Items / Amounts	Total 12.31.2011
TIER 2 capital before application of prudential filters	3,823
Prudential filters of TIER 2 capital	-
TIER 2 capital before items to be deducted	3,823
Items to be deducted from TIER 2 capital	(3,147)
Total TIER 2 capital	676

iii) *Total regulatory capital*

Items / Amounts	Total 12.31.2011
Total TIER 1 capital	174,316
Total TIER 2 capital	676
Regulatory capital	174,992

f) Capital ratios.

Items / Amounts	Total 12.31.2011
Tier 1 Capital Ratio (%)	16.5%
Total Capital Ratio (%)	16.6%

g) Amount of Tier 3 Regulatory Capital.

Not applicable. At December 31, 2011, regulatory capital does not include capital elements quantifiable as Tier 3.

TABLE 2. CREDIT RISK: GENERAL INFORMATION

QUALITATIVE DISCLOSURE

a) Credit risk represents the possibility of losses owing to default or insolvency of the counterparty. This is associated with the possibility that a sudden change in the credit quality of a counterparty, in which there is an exposure, will generate a corresponding reduction in the amount of the credit position.

i) In accordance with IAS, for purposes of the preparation of the financial statements at December 31, 2011, the Company has performed an impairment test of its receivables portfolio in order to identify any impairment of its financial assets.

This analysis made it possible to distinguish between performing and non-performing receivables; financial assets with a risk of loss were included in the non-performing category, while the remaining financial assets were considered in the performing category.

Performing receivables include those receivables due from customers which, despite being past due more than 90/180 or 270 days, show no objective indication of impairment either individually or collectively in the portfolio based on a series of internal historical or statistical information.

In accordance with IAS 39, and for purposes of an analytical valuation, the Company carried out an assessment of the financial assets classified in performing receivables in order to monitor the quantitative content.

Such analysis produced results in line with previous years; it did not point to any significant potential losses such as to require a collective writedown of the receivables.

According to the provisions of "Instructions for the Preparation of the Financial Statements of Financial Intermediaries ex Art. 107 of TUB, payment institutions, IMELs, SGRs and SIMs" written by Bank of Italy

and issued on March 13, 2012, Farmafactoring has divided its receivables from customers between “performing” and “impaired”.

Impaired assets correspond to the sum of:

- Past due
- Restructured
- Doubtful
- Non-performing

The definitions of these categories are set out in the Regulatory Reporting process, defined by Circular 217 of August 5, 1996 – 9th update of February 2, 2011 “*Manual for the Compilation of Regulatory Reporting for the Financial Intermediaries registered in the Special List*”.

On the basis of the above, non-performing receivables for the Company are in the separate non-performing category.

The definitions of “past due” and “impaired” receivables used by Farmafactoring, for accounting purposes, coincide with the regulatory definitions.

ii) With regard to the method adopted to determine impairment losses for accounting purposes, Farmafactoring assesses the individual credit positions on the basis of internal assessments and the advice of external legal advisors.

QUANTITATIVE DISCLOSURE

All amounts are expressed in thousands of euros.

b) *Gross credit exposure relating to the period of reference, divided by major types of exposures and counterparty.*

Types of exposures / Counterparties	Due from customers			Due from banks			Due from financial instit.			Total		
	Gross amount	Impairm. losses	Net amount	Gross amount	Impairm. losses	Net amount	Gross amount	Impairm. losses	Net amount	Gross amount	Impairm. losses	Net amount
1. Performing assets	1,521,342		1,521,342	68,328		68,328	1,226		1,226	1,590,896		1,590,896
2. Impaired assets												
2.1 Non-performing	17,014	(5,018)	11,996							17,014	(5,018)	11,996
2.2 Doubtful	842		842							842		842
2.3 Restructured exposures												
2.4 Past due exposures	5,810		5,810							5,810		5,810
Total	1,545,008	(5,018)	1,539,990	68,328		68,328	1,226		1,226	1,614,562	(5,018)	1,609,544

c) Distribution by significant geographic areas of exposures, divided by major types of exposures and, if necessary, additional details.

Types of exposures / Geographic areas	Italy					Rest of the World	Total
	Northwest	Northeast	Central	South	Islands		
1. Due from customers	211,189	279,022	460,140	424,907	159,716	5,016	1,539,990
- Non-recourse exposures							
- Performing	194,264	278,611	456,422	421,726	159,314		1,510,337
- Non-performing	11,996						11,996
- Doubtful	71		750	5		16	842
- Restructured exposures							
- Past due exposures	1,454	49	830	3,076	401		5,810
- Recourse exposures							
- Performing			179				179
- Other exposures with customers							
- Performing	3,404	362	1,959	100	1	5,000	10,826
- Non-performing							0
2. Due from banks	59,780	1,606	6,607	335			68,328
- Performing	59,780	1,606	6,607	335			68,328
3. Due from financial institutions	1,226						1,226
- Performing	1,226						1,226
Total	272,195	280,628	466,747	425,242	159,716	5,016	1,609,544

d) Distribution by economic sectors or by types of counterparty of exposures, divided by types of exposures and, if necessary, additional details.

Types of exposures / Economic sectors	Public administrations	Financial companies	Non-financial companies	Non-profit institutions serving families	Rest of the world	Total
1. Due from customers	1,508,143		6,883	19,948	5,016	1,539,990
- Non-recourse exposures						
- Performing	1,503,594		190	6,553		1,510,337
- Non-performing				11,996		11,996
- Doubtful			738	89	16	842
- Restructured exposures						
- Past due exposures	4,499		0	1,310		5,810
- Recourse exposures						
- Performing			179			179
- Other exposures with customers						
- Performing	50		5,776		5,000	10,826
- Non-performing						0
2. Due from banks		68,328				68,328
- Performing		68,328				68,328
3. Due from financial institutions		1,226				1,226
- Performing		1,226				1,226
Total	1,508,143	69,554	6,883	19,948	5,016	1,609,544

e) *Distribution by remaining contract life of the entire portfolio, broken down by types of exposures and, if necessary, additional details.*

Types of exposures / Remaining contract life	On demand	To 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
1. Due from customers	221,978	20,496	24,216	120,342	1,152,958	1,539,990
- Non-recourse exposures						
- Performing	215,108	11,978	24,073	108,049	1,151,129	1,510,337
- Non-performing	434			11,562		11,996
- Doubtful	618	9	4	6	205	842
- Restructured exposures						0
- Past due exposures	3,286	36	139	725	1,624	5,810
- Recourse exposures						
- Performing	179					179
- Other exposures with customers						
- Performing	2,353	8,473				10,826
2. Due from banks	68,328					68,328
- Performing	68,328					68,328
3. Due from financial institutions					1,226	1,226
- Performing					1,226	1,226
Total	290,306	20,496	24,216	120,342	1,154,184	1,609,544

f) *By significant economic sector or type of counterparty, the amount of:*
(i) impaired and past due exposures, indicated separately;
(ii) total impairment losses;
(iii) impairment losses recorded in the period.

Types of exposures / Economic sectors	Public Administrations						Net amount at 12.31.2011
	Gross amount at 12.31.2011	Impairment losses	Impairment losses	Impairment reversals	Writeoffs	Impairment losses	
		to 12.31.2010	recorded in 2011	recorded in 2011	recorded in 2011	at 12.31.2011	
1. Due from customers - Impaired	9,517	(8,124)	(18)	992	2,132	(5,018)	4,499
- Non-recourse exposures							
- Non-performing	5,018	(8,124)	(18)	992	2,132	(5,018)	0
- Doubtful							
- Restructured exposures							
- Past due exposures	4,499						4,499

Types of exposures / Economic sectors	Non-Financial Companies						
	Gross amount at 12.31.2011	Impairment losses	<i>Impairment losses</i>	<i>Impairment reversals</i>	<i>Writeoffs</i>	Impairment losses	Net amount at 12.31.2011
		to 12.31.2010	<i>recorded in 2011</i>	<i>recorded in 2011</i>	<i>recorded in 2011</i>	at 12.31.2011	
1. Due from customers - Impaired	738	(585)			585	0	738
- Non-recourse exposures							
- Non-performing	738						738
- Doubtful							
- Restructured exposures							
- Past due exposures	0						0
- Other exposures with customers							
- Non-performing	0	(585)			585	0	0
Types of exposures / Economic sectors	Non-Profit Institutions Serving Families						
	Gross amount at 12.31.2011	Impairment losses	<i>Impairment losses</i>	<i>Impairment reversals</i>	<i>Writeoffs</i>	Impairment losses	Net amount at 12.31.2011
		to 12.31.2010	<i>recorded in 2011</i>	<i>recorded in 2011</i>	<i>recorded in 2011</i>	at 12.31.2011	
1. Due from customers - Impaired	13,395						13,395
- Non-recourse exposures							
- Non-performing	11,996						11,996
- Doubtful	89						89
- Restructured exposures							
- Past due exposures	1,310						1,310
Types of exposures / Economic sectors	Rest of the World						
	Gross amount at 12.31.2011	Impairment losses	<i>Impairment losses</i>	<i>Impairment reversals</i>	<i>Writeoffs</i>	Impairment losses	Net amount at 12.31.2011
		to 12.31.2010	<i>recorded in 2011</i>	<i>recorded in 2011</i>	<i>recorded in 2011</i>	at 12.31.2011	
1. Due from customers - Impaired	16						16
- Non-recourse exposures							
- Non-performing	16						16
- Doubtful							
- Restructured exposures							
- Past due exposures							

Types of exposures / Economic sectors	Total							Net amount at 12.31.2011
	Gross amount at 12.31.2011	Impairment losses	Impairment losses	Impairment reversals	Writeoffs	Impairment losses	Net amount at 12.31.2011	
		to 12.31.2010	recorded in 2011	recorded in 2011	recorded in 2011	at 12.31.2011		
1. Due from customers - Impaired	23,666	(8,709)	(18)	992	2,717	(5,018)	18,648	
- Non-recourse exposures								
- Non-performing	17,014	(8,124)	(18)	992	2,132	(5,018)	11,996	
- Doubtful	842						842	
- Restructured exposures								
- Past due exposures	5,810						5,810	
- Other exposures with customers								
- Non-performing	0	(585)			585	0	0	

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

Types of exposures / Geographical areas	Italy								
	Northwest			Northeast			Central		
	Gross amount at 12.31.2011	Impairm. losses	Net amount at 12.31.2011	Gross amount at 12.31.2011	Impairm. losses	Net amount at 12.31.2011	Gross amount at 12.31.2011	Impairm. losses	Net amount at 12.31.2011
1. Due from customers	16,852	(3,331)	13,521	311	(262)	49	2,233	(654)	1,580
- Non-recourse exposures									
- Non-performing	15,327	(3,331)	11,996	262	(262)	0	654	(654)	0
- Doubtful	71		71				750		750
- Restructured exposures									
- Past due exposures	1,454		1,454	49		49	830		830

Types of exposures / Geographical areas	Italy						Rest of the World		
	South			Islands			Gross amount at 12.31.2011	Impairm. losses	Net amount at 12.31.2011
	Gross amount at 12.31.2011	Impairm. losses	Net amount at 12.31.2011	Gross amount at 12.31.2011	Impairm. losses	Net amount at 12.31.2011			
1. Due from customers	3,819	(737)	3,082	435	(34)	401	16		16
- Non-recourse exposures									
- Non-performing	737	(737)	0	34	(34)	0			
- Doubtful	5		5				16		16
- Restructured exposures									
- Past due exposures	3,076		3,076	401		401			

Types of exposures / Geographical areas	Total		
	Gross amount at 12.31.2011	Impairment losses	Net amount at 12.31.2011
1. Due from customers	23,666	(5,018)	18,648
- Non-recourse exposures			
- Non-performing	17,014	(5,018)	11,996
- Doubtful	842		842
- Restructured exposures			
- Past due exposures	5,810		5,810

- h)** *Change in total impairment losses compared to impaired asset exposures, separately for specific and portfolio impairments. The information includes:*
- i) the description of how impairment losses are determined;*
 - ii) the beginning balance of total impairment losses;*
 - iii) the writeoffs recorded during the year;*
 - iv) the impairment losses recorded during the year;*
 - v) the impairment reversals recorded during the year;*
 - vi) any other adjustments, for example, exchange fluctuations, corporate mergers, acquisitions and divestitures, including transfers between types of impairment losses;*
 - vii) the ending balance of total impairment losses.*
- The writeoffs and impairment reversals charged directly to the income statement are indicated separately.*

Farmafactoring determines impairment losses for accounting purposes by assessing the individual credit positions on the basis of internal assessments and the advice of external legal advisors.

- Specific impairment losses

Types of exposures / Impairment losses	Beginning impairm. losses	Increases			Decreases				Ending impairm. losses
		Impairm. losses	Transfers from another status	Other increases	Impairm. reversals	Transfers from another status	Writeoffs	Other decreases	
1. Due from customers - Impaired	8,709	18			(992)		(2,717)		5,018
- Non-recourse exposures									
- Non-performing	8,124	18			(992)		(2,132)		5,018
- Doubtful									
- Restructured exposures									
- Past due exposures									
- Other exposures with customers									
- Non-performing	585						(585)		0

TABLE 3. CREDIT RISK: INFORMATION RELATING TO PORTFOLIOS USING THE STANDARDIZED APPROACH

QUALITATIVE DISCLOSURE

- a)** In determining the capital requirement needed to cover credit risk, Farmafactoring uses the standardized approach. This approach requires the division of the exposures into various portfolios according to the nature of the counterparty and the application of diversified weighted ratios to each portfolio.
- In particular:
- for the “central administrations and central banks” portfolio, the weighting depends on the rating assigned by the ECAIs (External Credit Assessment Institution) to the individual States;
 - for the “supervised intermediaries” portfolio, the weighting depends on the rating of the State in which the supervised intermediary has its headquarters;
 - for the “public sector entities” portfolio, the rules for weighting are the same as those for supervised intermediaries.
- i)* In order to calculate the weighted exposure for credit risk, the credit assessment agency (ECAI) used by Farmafactoring for exposures to central administrations and central banks is Moody’s Investor Service, with an unsolicited type of rating. Following the downgrade of Italy’s rating on October 4, 2011, the weighting of the “Public Sector entities” went from 20% to 50% while that of “Central administrations and central banks” remained the same at 0% thanks to the use of the “preferential weighting factor” applicable in the event the corresponding funding is denominated in the same currency.
- ii)* As established by Bank of Italy’s regulation on prudential supervision and by the weightings of the ECAI adopted, the Company applies the following weighting factors for the calculation of credit risk:
- 0% for exposures with “Central administrations and central banks”;
 - 20% for exposures with “Territorial entities” with offices in a member State of the European Union denominated and financed in the local currency by virtue of Bank of Italy’s communication of March 1, 2012 which extends regulations for banks to the Financial Intermediaries registered in the Special List with respect to the 8th update of Circular 263 “*New prudential supervision regulations for banks*”;
 - 50% for receivables from the “Public sector entities”, which include those from AOs (Hospital Companies) in the National Health System and ASLs (Local Health Service Agencies), except for exposures with an original maturity equal to or less than 3 months for which a 20% weighting is applied;
 - 50% for exposures with “Supervised intermediaries”, except for exposures with an original maturity equal to or less than 3 months for which a 20% weighting is applied;
 - 100% for exposures with “Non-profit entities” and “Companies and other subjects”;
 - 150% for “Past due” exposures;
 - 100% for “Past due” exposures, if the specific impairment losses are equal to or higher than 20% of the unguaranteed portion, before charges for impairment losses;

- 100% for “Other” exposures (which include property, plant and equipment, investments and other assets);
- 0% for remaining “Other” exposures not subject to weighting (for example, cash).

Since it does not receive deposits from the public, the Company determines the capital requirement needed to cover credit risk as an amount of regulatory capital equal to at least 6% of the weighted exposure to credit risk.

$$\text{Capital requirement} = 6\% \text{ RWA}$$

The Risk-Weighted Amount (RWA) is determined by the sum of the risk-weighted assets of the various portfolios.

QUANTITATIVE DISCLOSURE

All amounts are expressed in thousands of euros.

- b)** *For each regulated portfolio, the amounts of the exposures, with and without mitigation of the credit risk, associated with each credit quality rating class as well as the amounts deducted from regulatory capital.*

The amounts of the exposures are not subject to procedures for mitigating credit risk.

Portfolios / Exposures	Weighting factors	Non-weighted exposures	Weighted exposures	Deductions from regulatory capital
Exposures with central administrations and central banks <i>Credit quality rating class: 2</i>	0%	32,084	0	0
Exposures with territorial entities <i>Credit quality rating class: 2</i>	20%	3,019	604	36
Exposures with public sector entities <i>Credit quality rating class: 2</i>	20%	2,254	451	27
	50%	1,495,197	747,598	44,856
Exposures with non-profit entities <i>Credit quality rating class: no rating</i>	100%	6,559	6,559	394
Exposures with supervised intermediaries <i>Credit quality rating class: 2</i>	20%	68,328	13,666	820
	50%	1,013	506	30
Exposures with companies and other subjects <i>Credit quality rating class: no rating</i>	100%	12,386	12,386	743
Past-due exposures	150%	18,413	27,619	1,657
Other exposures <i>Credit quality rating class: no rating</i>	100%	23,051	23,051	1,383
	0%	2	0	0
Total credit risk		1,662,307	832,441	49,946

TABLE 5. SECURITIZATION TRANSACTIONS

Disclosure on transactions with “Justine Capital S.r.l.”

QUALITATIVE INFORMATION

Strategies, processes and objectives

No transactions for the sale of receivables to the vehicle company Justine Capital S.r.l. (Issuer) were recorded during the year to December 31, 2011.

Such transactions carried out in prior years were considered as normal sales of receivables activities through the vehicle company, Justine Capital S.r.l., which directly and independently structured a securitization transaction.

The securitization transaction is winding down and no further sales transactions will be put in place. The most important characteristics of the transactions are as follows:

Description of the risk profile

Farmafactoring, as the originator, after having sold the non-recourse receivables, has neither any involvement in the securitization activity nor a holding in the vehicle, except for the activities relating to its mandate for collection.

The transaction does not call for any credit enhancement mechanism or subscription of financial instruments (junior, mezzanine or senior); therefore, all the risks and rewards of ownership have been transferred to the assignee.

Existence of guarantees and credit lines issued by the intermediary or third party

For those transactions carried out in prior years, a put option was written with Commerzbank AG London Branch, subscriber to the notes issued by Justine Capital S.r.l., which has the right to transfer the credit back to Farmafactoring if it is not certain, liquid and collectible. In that case, Farmafactoring will have the possibility of transferring it back in turn to the original assignor.

QUANTITATIVE INFORMATION

Type of financial instruments held

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

Sub-servicer activities

Farmafactoring, having the mandate for collection, recovers and collects the receivables on behalf of the servicer.

With regard to all the sales of receivables to Justine Capital S.r.l., at December 31, 2011, the Company managed an outstanding equal to about Euros 50 million.

Disclosure on transactions with “Banca IMI and WestLB: FF Finance S.r.l.”

QUALITATIVE INFORMATION

During the second half of 2011 the Company finalized a securitization transaction with Banca IMI and WestLB; this is a 36-month transaction maturing in June 2014 and refers to the sale of non-recourse receivables due from ASLs and AOs, in order to diversify funding activities.

Characteristics of the transaction

The receivables were sold under ex Law 130/99 to a vehicle company, FF Finance S.r.l., which financed the purchase by issuing securities for Euros 200 million, subscribed to in equal and full amounts by Duomo, a SPV owned by Banca IMI, and Compass, a SPV owned by WestLB, during the months of June and July 2011.

On June 20, and 23, 2011, the first sale of Euros 134 million was made and the contracts were signed; during the rest of the year further sales were made for a total of Euros 326 million.

During the first 30 months of the transaction, revolving sales will be made against collections on the receivables in order to maintain the collateralization ratio established in the contracts.

At the end of the 30 months, there will be a 6-month amortization period in which there will be no new sales.

Description of the risk profile

Farmafactoring, as the originator, although having sold the non-recourse receivables, is involved in the securitization transaction.

The transaction provides for a credit enhancement mechanism through an overcollateralization ratio (equal to at least 125% of the amount of the securities issued) and the subordinated loan carried by Farmafactoring.

The vehicle, through the exercise of a put option, also has the option of transferring any outstanding receivables back to Farmafactoring in the 36th month.

Considering the above, all the risks and rewards of the transaction were not transferred to the assignee but remain with Farmafactoring and therefore the securitization risk is included in the credit risk.

The Company monitors the trend and the costs of the transaction and prepares ad hoc reports.

The process relating to the securitization is formalized in a procedure that is periodically subject to control.

QUANTITATIVE INFORMATION

Type of financial instruments held

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

Sub-servicer activity

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

Concerning all the sales of receivables made to FF Finance S.r.l., at December 31, 2011, the Company managed an outstanding amount of about Euros 254.2 million.

TABLE 6. INTEREST RATE RISK ON POSITIONS INCLUDED IN THE NON-CURRENT PORTFOLIO

QUALITATIVE DISCLOSURE

- a)** The interest rate risk is represented by changes in the level of market interest rates which may generate adverse effects on the income statement of the Company.
- i)* Farmafactoring's lending activities, represented by non-recourse receivables purchased, are at fixed rates whereas funding is generally at variable rates.
The exposure is given by the amount of financing subject to this risk.
The Company uses derivative financial instruments only for purposes of hedging non-recourse purchases.
- ii)* In order to measure the exposure to risk from potential changes in interest rates, the Company adopted the methodology in Attachment M of Circular 216 of August 5, 1996 – 7th update of July 9, 2007, "Regulatory Instructions for the Financial Intermediaries registered in the Special List" issued by Bank of Italy, which provides for the construction of an operating framework based on the measurement of the elements of assets and liabilities referring to the purchase activity of non-recourse receivables.
- The "operating framework" adopted by the Company shows
- in the liabilities, the exposure represented by the total amount of financing, revalued on the basis of the maturity of the single tranches;
 - in the assets, the lending represented by exposure from the purchase of non-recourse receivables, most of which are already past due. The collection of these receivables is estimated on the basis of the Company's internal statistics and estimates of the payment times of the debtors, adjusted in relation to any relevant settlement agreements with the individual Regions and/or with relevant debtors or possible sales of assets or on the basis of all useful information in the Company's possession.
- The Company reconciles the operating data, used in the operating framework, and the data for regulatory reporting.

iii) Farmafactoring regularly monitors interest rate risk and also the management of this risk by preparing ad hoc reports.

The Risks Committee of Farmafactoring, as it is responsible for the Risk Management process, analyzes on a quarterly basis the issues surrounding the risk associated with a change in the interest rate.

QUANTITATIVE DISCLOSURE

- b) The situation deriving from application of the operating framework as at December 31, 2011, reported below, resulted in a risk ratio below the attention ceiling established by the prudential regulation (20%) equal to 10.0%.

Data updated to 12.31.2011

Maturity	Funding Exposure	Derivative Exposure	Total Exposure	Lending	Difference	Shock (200 bps)	Weighted Amount
On demand or with notice period	0		0	0	0	0.00%	0
to 1 month	921,281	-301,000	620,281	198,463	-421,817	0.08%	-337
1 to 3 months	439,211	5,000	444,211	275,721	-168,490	0.32%	-539
3 to 6 months	11,000	58,000	69,000	296,117	227,117	0.72%	1,635
6 months to 1 year	0	100,000	100,000	378,179	278,179	1.43%	3,978
1 to 2 years		110,000	110,000	277,208	167,208	2.77%	4,632
2 to 3 years		28,000	28,000	87,677	59,677	4.49%	2,680
3 to 4 years		0	0	70,015	70,015	6.14%	4,299
4 to 5 years		0	0	0	0	7.71%	0
5 to 7 years		0	0	12,148	12,148	10.15%	1,233
7 to 10 years		0	0	0	0	13.26%	0
10 to 15 years		0	0	0	0	17.84%	0
15 to 20 years		0	0	0	0	22.43%	0
After 20 years		0	0	0	0	26.03%	0
Total	1,371,492	0	1,371,492	1,595,528			17,580

Regulatory Capital at 12.31.2011

as per the financial statements approved by the board of directors' meeting on March 29, 2012

174,992

Risk index reached at the analysis date

10.0%

The Company conservatively decided also for 2011 to add Euros 18 million to internal capital to meet the risk of fluctuations in interest rates, even though from the application of the operating framework at December 31, 2011, the index is below the threshold of attention.

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