FARMAFACTORING SPA

Pillar III Disclosure

2008

Contents

INTRODUCTION

Circular 216 of August 5, 1996 of the Bank of Italy – 7th update of July 9, 2007[1], "Supervision Instructions for Financial Intermediations Registered in the Special List", 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 to identify measure and manage such risks.

This report, which includes five Tables, provides qualitative and quantitative disclosure as at December 31, 2008.

The Tables without information to be disclosed are not published by the Company.

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

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

(1) See Part 1, Chapter V, Section XII, page 1, Disclosure.

TABLE 1. CAPITAL ADEQUACY

QUALITATIVE DISCLOSURE

a) Regulatory capital is the first line of defense against risks associated with total financial assets and constitutes the main parameter of reference for measurements regarding the capital adequacy of the Company.

Farmafactoring constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing risks.

The Risks Committee lends its support to the board of directors in the definition of the methods to be used for the management of risks.

Regulatory capital is composed of Tier 1 Capital plus Tier 2 Capital, net of deductions.

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

The Company's exposure at December 31, 2008, and prospectively, with regard to December 31, 2009, is adequate in relation to its capital and risk profile.

For the risks of the first pillar, the Company uses the standardized approach for the measurement of credit risk and the base indicator approach for operational risk.
For those risks which are not included in the first pillar, the Company employs adequate control and analysis systems.

QUANTITATIVE DISCLOSURE

b) *Capital requirement against credit risk:* Euros 26 million.

c) *Capital requirement against market risk: not material.*
The Company does not have a trading portfolio.

d) *Capital requirement against operational risk:* Euros 8 million.

e) *Amount of regulatory capital at December 31, 2008.*
(in millions of euros)

Regulatory capital	12.31.2008	12.31.2007
Tier 1 capital	116	107
Deductions	(1)	(1)
TOTAL TIER 1 CAPITAL	**115**	**106**
Tier 2 capital	24	24
Deductions	(1)	(1)
TOTAL TIER 2 CAPITAL	**23**	**23**
TOTAL REGULATORY CAPITAL	**138**	**129**

f) *Tier 1 Capital Ratio:* 27%.
Total Capital Ratio: 32%.

g) *Amount of Tier 3 regulatory capital:* not calculated.
At December 31, 2008, regulatory capital does not include capital elements quantifiable as Tier 3.

TABLE 2. CREDIT RISK: GENERAL INFORMATION

QUALITATIVE DISCLOSURE

a) *i)* For purposes of the preparation of the 2008 financial statements, the Company performed an impairment test on the receivables portfolio in order to identify any impairments 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.

In particular, in accordance with IAS 39 and for purposes of an individual assessment, a review of the financial assets classified in receivables was carried out in order to identify the individual positions which present objective impairments.

The measurement of non-performing assets includes those classified as impaired assets.
Impaired assets comprise past due receivables and non-performing receivables.

The definitions of past due and impaired assets for accounting purposes coincide with those under the regulation relating to Circular 216 of August 5, 1996 - 7th update of July 9, 2007.

In particular, the exposure to central administrations and central banks, public sector entities and territorial entities are considered past due when the "debtor has not made any payment for any of the positions owed to the financial intermediary for more than 180 days".

Non-performing assets include all doubtful uncollectible receivables, net of the writedowns for estimated impairment losses.

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

QUANTITATIVE DISCLOSURE

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

(Amounts in thousands of euros expressed gross of impairment losses)

Major type of exposure	Major type of counterparty		
Item	Due from customers	Due from banks	Due from financial institutions
1. Performing assets	1,462,471	313,064	1,275
2. Impaired assets			
2.1 non-performing *(gross of impairment losses)*	19,020		
2.2 problem			
2.3 restructured			
2.4 past due	6,540		
Total	1,488,031	313,064	1,275

c) ***Distribution by significant geographical areas of exposure, broken down by major types of exposure and, if necessary, additional details.***

Exposure is concentrated in Italy, being the only significant geographical area.

d) ***Distribution by economic sector and by counterparty of exposure, broken down by major types of exposure and, if necessary, additional details.***

(Amounts in thousands of euros expressed net of impairment losses)

Major type of exposure	Distribution by significant economic sector / type of counterparty				
	Due from customers			Due from banks	Due from financial institutions
Item	of which, from government entities	of which, public entities	of which, from companies		
1. Performing assets	1,661	1,449,567	11,242	313,064	1,275
2. Impaired assets					
2.1 non-performing *(net of impairment losses)*		6,410			
2.2 problem					
2.3 restructured					
2.4 past due		6,540			
Total	1,661	1,462,517	11,242	313,064	1,275

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

(Amounts in thousands of euros expressed net of impairment losses)

Major type of exposure	to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	after 10 years	Unspecified term	Total
1. Performing assets	443,603	115,092	355,253	620,087		242,775	1,776,810
2. Impaired assets							
2.1 non-performing							
(net of impairment losses)						6,410	6,410
2.2 problem							
2.3 restructured							
2.4 past due						6,540	6,540
Total	443,603	115,092	355,253	620,087	-	255,725	1,789,760

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

(Amounts in thousands of euros)

	Gross amount at 12.31.2008	Impairment losses			Net amount at 12.31.2008
		to 12.31.2007	carried out in 2008	total at 12.31.2008	
Non-performing:					
Receivables from assignors	602	*(602)*		(602)	0
Receivables from assigned debtors	18,418	(5,008)	*(7,000)*	(12,008)	6,410
Past due:					
Receivables from assignors					
Receivables from assigned debtors	4,753				4,753
Receivables below nominal amount	1,787				1,787
Total impaired assets	25,560	(5,610)	(7,000)	(12,610)	12,950

g) ***By significant geographic areas [...]***
The exposures are concentrated in Italy, being the only significant geographical area.

h) ***Change in total impairment losses against impaired exposures [...]***
The change in impairment losses carried out in 2008 against impaired exposures is represented by the table in the preceding point (f).

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

QUALITATIVE DISCLOSURE

a) In the assessment of the credit risk, the Company used the standardized approach which involves the division of exposures in various portfolios according to the nature of the counterparty and the application of diversified weighted coefficients to each portfolio.

In particular, for the "Central administrations and central banks" portfolio, the weighting depends on the rating assigned by ECAI (External Credit Assessment Institution) or ECA (Export Credit Agencies) 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; for companies, the weighting is based on the specific rating of the company.

With regard to the assessment of regulatory capital and capital requirements, the credit assessment agency (ECAI) for exposures to central administrations and central banks recognized by Farmafactoring is Moody's Investor Service, with an "Unsolicited" type of rating, which attributes a 0% weighting to the State of Italy, and allows a 20% weighting to be applied to exposures to public sector entities.

For the calculation of the credit risk, the Company applies the following weighting factors established by the Bank of Italy regulation on prudential supervision:
• 0% for receivables from governments;
• 20% for receivables from the Public Administration (which include those from the Hospital -AOs - in the National Health System and ASLs);
• 20% for receivables from supervised intermediaries;
• 100% for receivables from private debtors;
• 100% for property, plant and equipment, investments and other assets;
• 150% for past due receivables.

Farmafactoring, since it does not receive deposits from the public, constantly maintains, as a capital requirement against credit risk, an amount of regulatory capital equal to at least 6% of the weighted exposure to credit risk.

Capital requirement = 6% RWA

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

QUANTITATIVE DISCLOSURE

b) ***The following table represents the weighted credit risk (divided by type of credit counterpart) and the relative capital absorption.***

(Amounts in millions of euros)

Categories / Values	Non-weighted amounts	Weighted items amounts	Values of exposures deducted from regulatory capital
Exposure to central administrations *Creditworthiness class: 1*	23	0	0.0
Exposure to territorial entities *Creditworthiness class: 1*	49	10	0.6
Exposure to public sector entities *Creditworthiness class: 1*	1,401	312	18.7
Exposure to intermediaries *Creditworthiness class: 1*	314	64	3.8
Exposure to companies *Creditworthiness class: 1*	13	13	0.8
Other exposure *Creditworthiness class: 1*	20	20	1.2
Past due exposure	13	15	0.9
Total	1,833	434	26

TABLE 5. SECURITIZATION TRANSACTIONS

QUALITATIVE DISCLOSURE

a) *This section presents information on the qualitative nature of the operational aspects connected with the three transactions put into place by the Company.*

1 - FL Finance S.r.l. securitization of receivables

• After having reached a framework agreement with the Lazio Region, in October 2004, the Company carried out a securitization transaction for the receivables from the Local Health Agencies (ASL) and Hospital Companies (AO).
The arranger was Merrill Lynch and the transaction was finalized with the sale of receivables to a vehicle company (Law 130) denominated FL Finance S.r.l.

• In this transaction, Farmafactoring performed the role of originator and servicer. As a result of the sale of its non-recourse receivables, Farmafactoring transferred all the risks connected with the assigned assets to FL Finance S.r.l.

• Farmafactoring as the originator did not subscribe to any securities issued by FL Finance S.r.l. and its involvement in the securitization transaction only regards its role as the servicer since it has no holding in FL Finance S.r.l.

• The securitization transaction was terminated in advance upon signing the Termination Agreement on September 30, 2008, instead of at June 15, 2009, as established in the Amortization Plan indicated in the Offering Circular.

2 - Justine Capital S.r.l. sale of receivables

• This transaction is considered a normal sale of receivables carried out through Justine Capital S.r.l. which has directly and independently structured a securitization transaction.

• Farmafactoring, as the originator, after selling the non-recourse receivables, has neither any involvement in the securitization activities nor a holding in Justine Capital S.r.l..

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

3 - Justine Capital S.r.l. (Lazio Region) sale of receivables

• The Company carried out the sale of receivables through the vehicle company Justine Capital S.r.l. which has directly and independently structured a securitization transaction.

• Farmafactoring, as the originator, after selling the non-recourse receivables, has neither any involvement in the securitization activities nor a holding in Justine Capital S.r.l..

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

QUANTITATIVE DISCLOSURE

d) *This section presents information on the quantitative nature of the operational aspects connected with the securitization transactions put into place by the Company.*

1 - FL Finance S.r.l. securitization of receivables

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

• Farmafactoring as the servicer took charge of the collection of the semiannual installments starting from December 15, 2004 for a total amount of Euros 214 million. The remaining amount of the receivables at December 31, 2008 as a result of the early repayment by the Lazio Region, mentioned previously, is now equal to zero.

• In 2008, the installments collected as the servicer amount to Euros 64 million.

2 - Justine Capital S.r.l. sale of receivables

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

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

• In 2008, sales were concluded for a total of Euros 141 million.

3 - Justine Capital S.r.l. (Lazio Region) sale of receivables

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

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

• In 2008, sales were concluded for a total of Euros 127 million.

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

QUALITATIVE DISCLOSURE

a) *i)* The investments of the Company, represented by non-recourse receivables purchased, are at fixed rates whereas the funding is generally at floating rates.
The exposure is given by the amount of financing subject to this risk.
The Company takes out financial instruments only for purposes of hedging non-recourse purchases.

ii) The Company determines the exposure to risks arising from potential changes in interest rates according to the provisions of Attachment M of Circular 216 of August 5, 1996 – 7th update of July 9, 2007, or weighting the asset and liability exposure according to the time frame, with weighed factors determined on the basis of the duration, and with shock rate assumptions of 200 basis points for all due dates.

iii) The Company continually monitors the management of interest rate risk.

QUANTITATIVE DISCLOSURE

b) The Company, as part of the internal capital assessment adequacy process (ICAAP) determined an index of risk (on the basis of the provisions of Attachment M of Circular 216 of August 5, 1996 – 7th update of July 9, 2007) aimed at establishing the extent of the change in the interest rate.

The calculation performed at December 31, 2008 shows a value on the risk index of 8.2%, below the 20% attention threshold established by the regulation on prudential supervision.

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