

FARMAFACTORING^{SPA}

Pillar III Disclosure

2009

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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, 2009.

Farmafactoring does not publish Tables without any disclosure content.

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 First Part, 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 overall financial activities conducted by the Company and constitutes the main parameter of reference for the assessment of the capital adequacy of the Company.
- Farmafactoring constantly assesses its capital structure, developing and utilizing techniques for monitoring and managing risks, assisted also by a risk committee which is charged with lending support to the board of directors.
- Regulatory capital of the Company is composed of Tier 1 Capital plus Tier 2 Capital, net of deductions.
- From the standpoint of prudential supervision, the capitalization absorption deriving from risks is determined considering the current reporting regulations of Bank of Italy.
- 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. Counterparty risk and market risk have an insignificant impact.
- With regard to risks not included in the “first pillar”, the company uses adequate organizational control systems.
- 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.
- Farmafactoring’s total exposure to risks at December 31, 2009, and prospectively at December 31, 2010, in relation to its business, is more than adequate in relation to the level of capitalization and the profile of risk identified.

QUANTITATIVE DISCLOSURE

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

b)	Credit risk capital requirement:	
	Categories / Amounts	Total 12.31.2009
	Credit risk	23,715
c)	Market risk capital requirement: not significant. The Company does not have a trading portfolio.	
d)	Operational risk capital requirement:	
	Categories / Amounts	Total 12.31.2009
	Operational risk	11,238
e)	Amount of Regulatory Capital:	
	Categories / Amounts	Total 12.31.2009
	Tier 1 capital before items to be deducted	126,130
	Items to be deducted from Tier 1	(132)
	Total TIER 1	125,998
	Tier 2 capital before items to be deducted	22,828
	Items to be deducted from Tier 2	(132)
	Total TIER 2	22,696
	Regulatory capital	148,694
f)	Capital ratios:	
	Categories / Amounts	Total 12.31.2009
	Tier 1 Capital Ratio (%)	32%
	Total Capital Ratio (%)	38%
g)	Amount of Tier 3 Regulatory Capital: not calculated. At December 31, 2009, regulatory capital does not include capital elements quantifiable as "Tier 3".	

TABLE 2. CREDIT RISK: GENERAL INFORMATION

QUALITATIVE DISCLOSURE

- a)** *i)* In accordance with IAS, for purposes of the preparation of the financial statements at December 31, 2009, 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.
- The measurement of performing receivables includes those receivables due from the clientele which, although past due more than 180-270 days, show no objective indication of impairment either individually or collectively in the portfolio based on a series of internal historical or statistical information.
- Under 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.
- This analysis has produced results in line with those of prior years and did not indicate any significant losses such as to require a charge for a collective impairment loss on the receivables.
- Furthermore, in accordance with the *"Instructions for the Preparation of the Financial Statements of the Financial Intermediaries registered in the Special List of IMELs, SGRs and SIMs"* written by Bank of Italy and issued on December 16, 2009, Farmafactoring has divided its receivables from the clientele between "performing" and "impaired".
- Impaired assets are divided into the following categories:
- 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 – 8th update of December 16, 2009 *"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 a separate non-performing category.
- 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, unless otherwise indicated.

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

Exposure types / Counterparties	Due from customers	Due from banks	Due from financial institutions	Total 12.31.2009
1. Performing assets	1,573,631	116,533	1,275	1,691,439
2. Impaired assets				
2.1 Non-performing	16,383			16,383
2.2 Doubtful	6,107			6,107
2.3 Restructured				
2.4 Past due	3,342			3,342
Total	1,599,463	116,533	1,275	1,717,271

c) Distribution by significant geographical areas of exposures, 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 or by type of counterparty of exposures, broken down by types of exposure and, if necessary, additional details

Exposure types / Counterparties	Due from customers						Due from banks	Due from financial institutions	Total 12.31.2009
	Non-recourse		Recourse		Other				
	of which from Central Admins.	of which from Territorial, public and non-profit institutions	of which from Companies and other parties	of which from Companies and other parties	of which from Territorial, public and non-profit institutions	of which from Companies and other parties			
1. Performing assets	1,025	1,561,551	336	2,197	7	8,515	116,533	1,275	1,691,439
2. Impaired assets									
2.1 Non-performing	1,215	2,665							3,880
2.2 Doubtful		5,166	941						6,107
2.3 Restructured									
2.4 Past due	566	2,776	0						3,342
Total	2,806	1,572,158	1,277	2,197	7	8,515	116,533	1,275	1,704,768

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

Exposure types / Residual term	to 3 months	after 3 months to 6 months	after 6 months to 1 year	after 1 year to 5 years	after 5 years to 10 years	after 10 years	unspecified term	Total 12.31.2009
1. Performing assets	222,604	81,650	100,273	965,704			321,208	1,691,439
2. Impaired assets								
2.1 Non-performing							3,880	3,880
2.2 Doubtful							6,107	6,107
2.3 Restructured								
2.4 Past due							3,342	3,342
Total	222,604	81,650	100,273	965,704			334,537	1,704,768

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.

Exposure types / Amounts	Gross amount 12.31.2009	Impairment losses			Impairment reversals			Net amount 12.31.2009
		to 12.31.2008	recorded in 2009	at 12.31.2009	to 12.31.2008	recorded in 2009	at 12.31.2009	
1. Performing assets								
2. Impaired assets								
2.1 Non-performing	16,383	(12,610)	(1,800)	(14,410)	0	1,907	1,907	3,880
Exposures to assignors	602	(602)		(602)				
Exposures to assigned debtors	15,781	(12,008)	(1,800)	(13,808)	0	1,907	1,907	3,880
2.2 Doubtful	6,107							6,107
Exposures to assignors								
Exposures to assigned debtors	6,107							6,107
2.3 Restructured								
Exposures to assignors								
Exposures to assigned debtors								
2.4 Past due	3,342							3,342
Exposures to assignors								
Exposures to assigned debtors	3,342							3,342
Total	25,832	(12,610)	(1,800)	(14,410)	0	1,907	1,907	13,329

g) *By significant geographic areas, the amount of:
1) impaired and past due exposures, indicated separately:*

Exposure types / Geographical areas	Italy				Rest of the World	Total 12.31.2009
	Northwest	Northeast	Central	South and Islands		
Impaired assets						
- Non-performing	2,547	1	1,324	8		3,880
- Doubtful	1,373	7	4,708	2	17	6,107
- Restructured						
- Past due	193	95	845	2,209		3,342
Total	4,113	103	6,877	2,219		13,329

2) impairment losses relating to each geographical area, where possible:

Exposure types / Geographical areas	Italy				Rest of the World	Total 12.31.2009
	Northwest	Northeast	Central	South and Islands		
1. Performing assets						
2. Impaired assets						
2.1 Non-performing	5,231	2	6,938	332		12,503
2.2 Doubtful						
2.3 Restructured						
2.4 Past due						
Total	5,231	2	6,938	332		12,503

h) Change in total impairment losses compared to impaired asset exposures, separately for specific and portfolio impairments:

i) 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.

Exposure types / Adjustments	Beginning impairment losses	Adjustments				Ending Impairment losses
		Derecognition	Impairment losses	Impairment reversals	Other changes	
Impaired assets - details						
<i>Exposure to assignors</i>						
- Non-performing	602					602
- Doubtful						
- Restructured						
- Past due						
<i>Exposure to assigned debtors</i>						
- Non-performing	12,008		1,800	(1,907)		11,901
- Doubtful						
- Restructured						
- Past due						
On the portfolio of other assets						
- Exposure to assignors						
- Exposure to assigned debtors						
Total	12,610		1,800	(1,907)		12,503

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

QUALITATIVE DISCLOSURE

a) In the assessment of credit risk, the Company uses the “Standardized” approach. This approach involves the division of the exposures into various portfolios according to the nature of the counterparty and the application of diversified weighted ratios to each portfolio.

In particular:

- for the “central administrations and central banks” portfolio, the weighting depends on the rating assigned by the ECAI (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;
- for the “companies” portfolio, the weighting is based on the specific rating of the company.

With regard to regulatory capital and capital requirements reporting, the credit assessment agency (ECAI) for exposures to central administrations and central banks recognized by Farmafactoring is “Moody’s Investor Service”, with the “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 credit risk, based on the provisions of Bank of Italy established in Bank of Italy’s regulation on prudential supervision and weightings of ECAI adopted, the Company applies the following weightings factors:

- 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, applies, as a credit risk capital requirement, an amount of regulatory capital equal to 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) *The following table represents the credit risk as of December 31, 2009, with a subdivision for each portfolio (associated with the creditworthiness class) and the relative non-weighted and weighted exposures and exposures deducted from regulatory capital.*

Portfolios / Exposures	Non-weighted exposures	Weighted exposures	Deductions from regulatory capital
Exposures to central administrations and central banks <i>Creditworthiness class: 1</i>	20,078	0	0
Exposures to territorial entities <i>Creditworthiness class: 1</i>	9,981	1,996	120
Exposures to non-profit and public sector entities <i>Creditworthiness class: 1</i>	1,551,853	319,233	19,154
Exposures to supervised intermediaries <i>Creditworthiness class: 1</i>	117,008	23,402	1,404
Exposures to companies and other parties <i>Creditworthiness class: 1</i>	12,343	12,343	741
Other exposures <i>Creditworthiness class: 1</i>	20,534	20,523	1,231
Past due exposures	13,055	17,759	1,065
Total	1,744,852	395,256	23,715

TABLE 5. SECURITIZATION TRANSACTIONS

QUALITATIVE DISCLOSURE

- a)** There were no securitization transactions in 2009.
- Farmafactoring, in 2009, having the mandate for collections, acted on behalf of the servicer to recover and collect receivables relative to all the sales made through the vehicle company Justine Capital S.r.l. in 2008.
- To this end, after having sold the non-recourse receivables, Farmafactoring no longer has any involvement in the securitization activity or a holding in the vehicle company.
- Furthermore, such transactions, as explained in the notes to the 2008 financial statements, had the following principal characteristics:
- absence of credit enhancement mechanisms or subscription to financial instruments (junior, mezzanine or senior), with the transfer to the assignee of all the risks and rewards;
 - absence of financial instruments held by Farmafactoring;
 - put option written with Dresdner Bank London Branch, now Commerzbank London Branch, subscriber to the notes issued by Justine Capital S.r.l., which has the right to give back the credit to Farmafactoring if it is not of "certain liquidity and collectible". In that case, Farmafactoring will have the possibility of giving it back in turn to the original assignor.

INFORMATIVA QUANTITATIVA

- d)** Farmafactoring, with regard to all the sales of receivables during 2008 to the vehicle Justine Capital S.r.l., at December 31, 2009, having the mandate for collections, Farmafactoring manages an outstanding amount of Euros 137 million.

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

QUALITATIVE DISCLOSURE

- a)**
- i)* The Company's lending activities, represented by non-recourse receivables purchased, are at fixed rates whereas 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)* Farmafactoring 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, "Regulatory Instructions for the Financial Intermediaries registered in the Special List" issued by Bank of Italy, 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)* Farmafactoring regularly monitors interest rate risk and its management.

QUANTITATIVE DISCLOSURE

- b)**
- The Company, for purposes of assessing the adequacy of its internal capital (ICAAP Summary) has established an index of risk directed at determining the extent of the risk of change in interest rates according to the provisions of 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.
- The calculation performed on the data as of December 31, 2009 shows a value on the risk index below the attention threshold established by the prudential supervision regulation, defined as 20%. Consequently, for 2009, the risk of change in interest rates is considered immaterial.

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