FARMAFACTORING SPA

Pillar III Disclosure

2010

Contents

INTRODUCTION

Circular 216 of August 5, 1996 – 7th update of July 9, 2007[1] *"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, 2010.
Farmafactoring does not publish the Tables which do not contain 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 risks, assisted also by a risk 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 deductions 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 1"risks, the Company uses the "standardized" approach for the measurement of credit risk and the "basic" indicator approach for operational risk.
Counterparty risk and market risk have an insignificant impact.

As concerns risks not included in "Pillar 1", and with particular reference to the risk of fluctuations in interest rates, the Company uses adequate organizational controls and internal methodologies.

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

Farmafactoring's total exposure to risks at December 31, 2010, and prospectively at December 31, 2011, on the basis of its business, is more than adequate in relation to 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 12.31.2010
Credit risk	22,721

c) *Market risk capital requirement.*
Not applicable. The Company does not have a trading portfolio.

d) *Operational risk capital requirement.*

Items / Amounts	Total 12.31.2010
Operational risk	13,118

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

Items / Amounts	Total 12.31.2010
TIER 1 capital before application of prudential filters	136,583
Prudential filters of TIER 1 capital	-
TIER 1 capital before items to be deducted	136,583
Items to be deducted from TIER 1capital	(3,132)
Total TIER 1 capital	133,451

ii) TIER 2 capital

Items / Amounts	Total 12.31.2010
TIER 2 capital before application of prudential filters	24,223
Prudential filters of TIER 2 capital	(1,395)
TIER 2 capital before items to be deducted	22,828
Items to be deducted from TIER 2capital	(3,132)
Total TIER 2 capital	19,696

iii) Total regulatory capital

Items / Amounts	Total 12.31.2010
Total TIER 1 capital	133,451
Total TIER 2 capital	19,696
Regulatory capital	153,147

f) *Capital ratios*

Items / Amounts	Total 12.31.2010
Tier 1 Capital Ratio (%)	22.3%
Total Capital Ratio (%)	25.6%

g) *Amount of Tier 3 Regulatory Capital.*
Not applicable. At December 31, 2010, regulatory capital does not include capital elements quantifiable as Tier 3.

TABLE 2. CREDIT RISK: GENERAL DISCLOSURE

QUALITATIVE DISCLOSURE

a) Credit risk represents the possibility of losses owing to default or insolvency of the counterpart. This is associated with the possibility that a sudden change in the credit quality of a counterpart, 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, 2010, 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 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.
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 Bank of Italy *"Instructions for the Preparation of the Financial Statements of the Financial Intermediaries registered in the Special List of IMELs, SGRs and SIMs"* issued on

December 16, 2009, and subsequent additions, 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 – 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 a 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 type of exposure and counterparty.***

Types of exposure / Counterparts	Due from customers			Due from banks			Due from financ. instit.			Total		
	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount	Gross amount	Impair. losses	Net amount
1. Performing assets	1,573,147		1,573,147	84,153		84,153	1,275		1,275	1,658,575		1,658,575
2. Impaired assets												
2.1 Non-performing	8,798	(8,710)	88							8,798	(8,710)	88
2.2 Doubtful	582		582							582		582
2.3 Restructured exposures												
2.4 Past due exposures	3,448		3,448							3,448		3,448
Total	1,585,975	(8,710)	1,577,265	84,153		84,153	1,275		1,275	1,671,403	(8,710)	1,662,693

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

Types of exposure / Geographical areas	Italy					Rest of the World	Total
	North West	North East	Central	South	Islands		
1. Due from customers	187,084	283,692	593,389	359,281	153,804	15	1,577,265
- Non-recourse exposures							
- Performing	180,539	283,602	589,039	358,953	153,642		1,565,775
- Non-performing			88				88
- Doubtful	90		475	2		15	582
- Restructured exposures							
- Past due exposures	861	72	2,055	298	162		3,448
- Recourse exposures							
- Performing			499				499
- Other exposures with customers							
- Performing	5,594	18	1,233	28			6,873
- Non-performing			0				0
2. Due from banks	83,526	78	16	533			84,153
- Performing	83,526	78	16	533			84,153
3. Due from financial institutions	1,275						1,275
- Performing	1,275						1,275
Total	271,885	283,770	593,405	359,814	153,804	15	1,662,693

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

Types of exposure / Economic sectors	Public administrations	Financial companies	Non-financial companies	Non-profit institutions serving families	Rest of the world	Total
1. Due from customers	1,548,049		9,232	19,969	15	1,577,265
- Non-recourse exposures						
- Performing	1,546,297		303	19,175		1,565,775
- Non-performing	88					88
- Doubtful			460	107	15	582
- Restructured exposures						
- Past due exposures	1,600		1,161	687		3,448
- Recourse exposures						
- Performing			499			499
- Other exposures with customers						
- Performing	64		6,809			6,873
- Non-performing			0			0
2. Due from banks		84,153				84,153
- Performing		84,153				84,153
3. Due from financial institutions		1,275				1,275
- Performing		1,275				1,275
Total	1,548,049	85,428	9,232	19,969	15	1,662,693

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

Types of exposure / Remaining contract life	To 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	5 to 10 years	Over 10 years	Unspecified maturity	Total
1. Due from customers	24,453	14,984	100,592	1,205,462	88		231,686	1,577,265
- Non-recourse exposures								
- Performing	17,078	14,981	100,546	1,203,709			229,461	1,565,775
- Non-performing					88			88
- Doubtful				100			482	582
- Restructured exposures								
- Past due exposures	3	3	46	1,653			1,743	3,448
- Recourse exposures								
- Performing	499							499
- Other exposures with customers								
- Performing	6,873							6,873
- Non-performing					0			0
2. Due from banks	84,153							84,153
- Performing	84,153							84,153
3. Due from financial institutions							1,275	1,275
- Performing							1,275	1,275
Total	108,606	14,984	100,592	1,205,462	88		232,961	1,662,693

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 exposure / Economic sectors	Public administrations						
	Gross amount at 12.31.2010	Impairment losses to 12.31.2009	*Impairment losses recorded in 2010*	*Impairment reversals recorded in 2010*	*Writeoffs recorded in 2010*	Impairment losses at 12.31.2010	Net amount at 12.31.2010
1. Due from customers - Impaired	9,813	(11,900)	(1,220)	3,874	1,121	(8,125)	1,688
- Non-recourse exposures							
- Non-performing	8,213	(11,900)	(1,220)	3,874	1,121	(8,125)	88
- Doubtful							
- Restructured exposures							
- Past due exposures	1,600						1,600

Types of exposure / Economic sectors	Non-Financial companies						
	Gross amount at 12.31.2010	Impairment losses to 12.31.2009	*Impairment losses recorded in 2010*	*Impairment reversals recorded in 2010*	*Writeoffs recorded in 2010*	Impairment reversals at 12.31.2010	Net amount at 12.31.2010
1. Due from customers - Impaired	2,206	(602)		17		(585)	1,621
- Non-recourse exposures							
- Non-performing							
- Doubtful	460						460
- Restructured exposures							
- Past due exposures	1,161						1,161
- Other exposures with customers							
- Non-performing	585	(602)		17		(585)	0

Types of exposure / Economic sectors	Non-Profit Institutions Serving Families						
	Gross amount at 12.31.2010	Impairment losses to 12.31.2009	*Impairment losses recorded in 2010*	*Impairment reversals recorded in 2010*	*Writeoffs recorded in 2010*	Impairment reversals at 12.31.2010	Net amount at 12.31.2010
1. Due from customers - Impaired	794						794
- Non-recourse exposures							
- Non-performing							
- Doubtful	107						107
- Restructured exposures							
- Past due exposures	687						687

Types of exposure / Economic sector	Rest of the World						
	Gross amount at 12.31.2010	Impairment losses to 12.31.2009	*Impairment losses recorded in 2010*	*Impairment reversals recorded in 2010*	*Writeoffs recorded in 2010*	Impairment reversals at 12.31.2010	Net amount at 12.31.2010
1. Due from customers - Impaired	15						15
- Non-recourse exposures							
- Non-performing							
- Doubtful	15						15
- Restructured exposures							
- Past due exposures							

Types of exposure / Economic sectors	Total						
	Gross amount at 12.31.2010	Impairment losses to 12.31.2009	*Impairment losses recorded in 2010*	*Impairment reversals recorded in 2010*	*Writeoffs recorded in 2010*	Impairment reversals at 12.31.2010	Net amount at 12.31.2010
1. Due from customers - Impaired	12,828	(12,502)	(1,220)	3,891	1,121	(8,710)	4,118
- Non-recourse exposures							
- Non-performing	8,213	(11,900)	(1,220)	3,874	1,121	(8,125)	88
- Doubtful	582						582
- Restructured exposures							
- Past due exposures	3,448						3,448
- Other exposures with customers							
- Non-performing	585	(602)		17		(585)	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 exposure / Geographical areas	Italy								
	North West			North East			Central		
	Gross amount 12.31.2010	Impairm. losses	Net amount at 12.31.2010	Gross amount 12.31.2010	Impairm. losses	Net amount at 12.31.2010	Gross amount 12.31.2010	Impairm. losses	Net amount at 12.31.2010
1. Due from customers - Impaired	4,924	(3,973)	951	393	(321)	72	6,184	(3,566)	2,618
- Non-recourse exposures									
- Non-performing	3,973	(3,973)	0	321	(321)	0	3,069	(2,981)	88
- Doubtful	90		90				475		475
- Restructured exposures									
- Past due exposures	861		861	72		72	2,055		2,055
- Other exposures with customers									
- Non-performing							585	(585)	0

Types of exposure / Geographical areas	Italy						Rest of the World		
	South			Islands					
	Gross amount 12.31.2010	Impairm. losses	Net amount at 12.31.2010	Gross amount 12.31.2010	Impairm. losses	Net amount at 12.31.2010	Gross amount 12.31.2010	Impairm. losses	Net amount at 12.31.2010
1. Due from customers - Impaired	1,117	(817)	300	195	(33)	162	15		15
- Non-recourse exposures									
- Non-performing	817	(817)	0	33	(33)	0			
- Doubtful	2		2				15		15
- Restructured exposures									
- Past due exposures	298		298	162		162			
- Other exposures with customers									
- Non-performing									

Types of exposure / Geographical areas	Total		
	Gross value at 12.31.2010	Impairment losses	Net value at 12.31.2010
1. Due from customers - Impaired	12,828	(8,710)	4,118
- Non-recourse exposures			
- Non-performing	8,213	(8,125)	88
- Doubtful	582		582
- Restructured exposures			
- Past due exposures	3,448		3,448
- Other exposures with customers			
- Non-performing	585	(585)	0

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 exposure / Impairment losses	Beginning impairm. losses	Increases			Decreases				Ending Impairm. losses
		Impairm. losses	Trans. from another status	Other increases	Impairm. reversals	Trans. from another status	Writeoffs	Other decreases	
1. Due from customers - Impaired	12,502	1,220			(3,891)		(1,121)		8,710
- Non-recourse exposures									
- Non-performing	11,900	1,220			(3,874)		(1,121)		8,125
- Doubtful									
- Restructured exposures									
- Past due exposures									
- Other exposures with customers									
- Non-performing	602				(17)				585

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 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 and other entities" portfolio, the weighting is based on the specific rating of the company.

i) In order to calculate the weighted exposure for the 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, which attributes a weight of 0% to the State of Italy and allows a 20% weighting to be applied to exposures with the public sector.

ii) For the calculation of credit risk, the Company applies the following weighting factors established by Bank of Italy's regulation on prudential supervision and the ECAI weightings adopted:
• 0% for exposures to "Central governments and central banks";
• 20% for exposures to "Territorial" and "Public sector entities" (which include those from the Hospitals (AOs) in the National Health System and ASLs);
• 20% for exposures to "Supervised intermediaries";
• 100% for exposures to "Non-profit entities" and "Companies and other entities";
• 150% for "Past due" exposures;
• 100% for "Past due" exposures, if the specific impairment losses are equal to or higher than 20% of the unsecured portion, gross of the impairment losses;
• 100% for "Other" exposures (which include property, plant and equipment, investments and other assets);
• 0% for "Other" remaining exposures not subject to weighting (e.g. cash).

iii) 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.

Capital requirement = 6% 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 step 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 to central governments and central banks *Credit quality: step 1*	0%	28,575	0	0
Exposures to territorial entities *Credit quality: step 1*	20%	4,713	943	57
Exposures to non-profit entities and public sector entities	20%	1,538,307	307,661	18,460
Credit quality: step 1	100%	19,187	19,187	1,151
Exposures to supervised intermediaries *Credit quality: step 1*	20%	85,511	17,102	1,026
Exposures to companies and other entities *Credit quality: step 1*	100%	8,903	8,903	534
Past-due exposures	100%	88	88	5
	150%	3,815	5,723	344
Other exposures	100%	19,072	19,072	1,144
	0%	2	0	0
Total		1,708,173	378,679	22,721

TABLE 5. SECURITIZATION TRANSACTIONS

QUALITATIVE DISCLOSURE

a) There were no securitization transactions in 2010.

Sale of receivables to Justine Capital S.r.l.

During 2010, one single transaction was put in place in February for a non-recourse sale to the vehicle company Justine Capital S.r.l. for Euros 90 million.

i) This transaction is considered as a normal sale of receivables activity carried out through the vehicle company, Justine Capital S.r.l., which has directly and independently structured a securitization transaction.

ii) 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 company.
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.
A put option was written for this transaction 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 of certain liquidity and collectible.
In that case, Farmafactoring will have the possibility of transferring the credit back in turn to the original assignor.

QUANTITATIVE DISCLOSURE

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

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, 2010, the Company managed an outstanding equal to about Euros 104 million.

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

QUALITATIVE DISCLOSURE

a) The interest rate risk is represented by the change in the level of market interest rates such as to produce negative 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 calls for the construction of an operating framework based on the measurement of the elements of the assets and liabilities referring to the purchase activity of non-recourse receivables.

iii) Farmafactoring regularly monitors interest rate risk and its management.

QUANTITATIVE DISCLOSURE

b) The application of the operating framework to the data at December 31, 2010 resulted in a risk ratio below the attention ceiling established by the prudential regulation, defined as 20%.

Regardless of regulatory obligations, the Company conservatively decided to add on Euros 18 million to internal capital to meet the risk of fluctuations in interest rates.

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