2010 Report and Financial Statements

Banca Popolare dell'Alto Adige
società cooperativa per azioni

Banca Popolare · Volksbank

BPAA

Banca Popolare dell'Alto Adige
società cooperativa per azioni

registered office and head office in Bolzano
ABI 05856.0
tax code, VAT number and member of the Business Register of Bolzano no. 00129730214
www.bancapopolare.it

Contents

Unless otherwise stated, all amounts are expressed in thousands of Euro.

Summary data

Balance sheet in millions of Euro	31.12.2010	31.12.2009	Change %
Total assets	5,248	5,192	1.08%
Total receivables	4,563	4,490	1.63%
- of which due from customers	4,513	4,438	1.68%
Financial assets	396	406	-2.54%
Total payables	4,555	4,514	0.92%
- of which due to customers (direct deposits)	4,001	4,222	-5.22%
Indirect deposits	2,042	1,947	4.89%
Shareholders' Equity (including profit for the year)	538	530	1.44%

Income statement in millions of Euro	31.12.2010	31.12.2009	% change
Interest Margin	106	128	-16.70%
Net commissions	67	46	44.86%
Banking margin	171	184	-7.14%
Value adjustments/write-backs for impairment	-9	-24	-64.29%
Net income from financial management	162	160	1.43%
Net operating costs	-128	-119	7.61%
- of which personnel costs	-75	-73	3.38%
- of which other administrative costs	-48	-46	5.91%
Operating income from ordinary activities before taxes	32	41	-21.89%
Profit for the year	17	26	-31.83%
Comprehensive income	18	28	-35.61%

Economic-financial indices and other data	31.12.2010	31.12.2009	Change
Shareholders' equity/total assets	10.25%	10.21%	4 BP
Tier1 ratio (tier 1 capital / risk weighted assets)	9.97%	9.33%	64 BP
Total capital ratio (regulatory capital / risk weighted assets)	11.80%	11.05%	75 BP
ROE (profit for the year / average shareholders' equity)	3.27%	4.89%	-163 BP
ROA (profit for the year / average total assets)	0.33%	0.50%	-17 BP
Average number of employees	1,027	1,015	12
Number of shareholders	16,263	14,194	2,069
Number of shareholders (without voting rights)	3,595	4,202	-607
Number of branches	133	133	0

Head Office and branches

	società cooperativa per azioni shareholders' equity at 31.12.2010 Euro 537,911,053 registered with the court of Bolzano under no. Gen. 1/10 VAT no. 00129730214	
registered office	39100 Bolzano - via Siemens, 18	
head office	address telephone telefax swift	39100 Bolzano - via Siemens, 18 +39 0471 996 145 +39 0471 979 188 BPAAIT2B
contact	Website e-mail	www.bancapopolare.it gsinfo@bancapopolare.it
acronym		BPAA

63 branches in Bolzano province

Appiano sulla Strada del Vino - via J.G.Plazer, 50
Bolzano/Aslago - via Claudia Augusta, 5
Bolzano/Don Bosco - via Sassari, 4 b/c
Bolzano/Gries - galleria Telser, 1
Bolzano - piazza Mazzini, 2
Bolzano - piazza Parrocchia, 4
Bolzano - via del Macello, 23bis
Bolzano - via Galvani, 39
Bolzano - via Leonardo da Vinci, 2
Bolzano - via Resia, 130
Bolzano - via Roma, 45
Bolzano - viale Druso, 64
Bolzano/Zona Europa - via del Ronco, 15
Bolzano/Firmiano - viale Giacomo Puccini, 6
Bressanone/Millan - via Plose, 38/b
Bressanone - portici Maggiori, 2
Bressanone/Tiniga - via Rio Scaleres, 26
Bressanone/Zona industriale - via Julius Durst, 28
Brunico - Bastioni, 24
Brunico/S. Giorgio - via Valle Aurina, 30
Brunico/Stegona - via S. Nicolò, 14
Cadipietra - Cadipietra, 105
Caldaro sulla Strada del Vino - piazza Principale, 13
Caldaro sulla Strada del Vino - via Stazione, 10
Campo Tures - via Municipio, 4
Chienes - via Chienes, 1
Chiusa - piazza Tinne, 5

Dobbiaco - viale S. Giovanni, 23
Egna - largo Municipio, 22
Fiè allo Sciliar - via Bolzano, 3
Fortezza - via Brennero, 7/c
Gargazzone - vicolo dei Campi, 2
La Villa [La Ila] - via Colz, 56
Laces - via Stazione, 1/b
Laives - via Kennedy, 123
Lana - piazza Tribus, 17
Lasa - via Venosta, 44
Lazfons - Paese, 18
Luson - vicolo Dorf, 19
Malles Venosta - via Stazione, 9/b
Merano - piazza del Grano, 3
Merano - via Goethe, 74/a
Merano - via Matteotti, 43
Merano - via Monte Tessa, 34
Merano - via Roma, 278
Monguelfo - via Parrocchia, 13
Naturno - via Principale, 37/b
Nova Levante - via Roma, 8
Ora - via Stazione, 8
Ortisei [Urtijei] - piazza S. Durich, 3
Racines - Stanghe, 18
Rio di Pusteria - via Katharina Lanz, 50
San Leonardo in Passiria - via Passiria, 14
San Lorenzo di Sebato - via Josef Renzler, 17
Scena - piazza Arciduca Giovanni, 7
Selva Val Gardena [Sëlva] - via Mëisules, 155/a
Silandro - via Covelano, 10
Siusi - via Sciliar, 16
Valles - Valles, 116
Vandoies - via J.A. Zoller, 8
Varna - via Brennero, 101
Velturno - Paese, 34
Vipiteno - via Città Nuova, 22/a

21 branches in Belluno province
Auronzo di Cadore - via Corte, 33
Belluno, bank4fun - via Caffi, 1a-3
Belluno - via Caffi, 15
Belluno - via Vittorio Veneto, 278
Cencenighe Agordino - via XX Settembre, 107
Cortina d'Ampezzo - largo delle Poste, 49
Domegge di Cadore - via Roma, 48
Dosoledo - piazza Tiziano, 2
Feltre - via Monte Grappa, 28
Forno di Zoldo - via Roma, 70/b
Limana - via Roma, 116/118
Longarone - via Roma, 89
Mel - via Tempietto, 33/a
Padola - piazza San Luca, 22
Ponte nelle Alpi - viale Roma, 87
San Pietro di Cadore - via P.F.Calvi, 16
Santo Stefano di Cadore - via Venezia, 30
Sedico - via Cordevole, 2/b
Santa Giustina - via Feltre, 17
Tai di Cadore - via Ferdinando Coletti, 15
Valle di Cadore - via XX Settembre, 76

3 branches in Pordenone province
Cordenons - via Sclavons, 77
Pordenone - via Galvani, 8
Sacile - via Martiri Sfriso, 9

20 branches in Trento province
Ala - via della Roggia, 10
Arco - via S. Caterina, 20
Borgo Valsugana - via Hippoliti, 11/13
Cavalese - viale Libertà, 7
Cles - piazza Navarrino, 16/17
Fondo - via Cesare Battisti, 39
Lavis - via Rosmini, 65
Mezzolombardo - via Alcide Degasperi, 4
Moena - piazza Italia, 16
Mori - via della Terra Nera, 48/d
Pergine Valsugana - viale Venezia, 44
Riva del Garda - via Damiano Chiesa, 4g-4h
Rovereto - via G. M. della Croce, 2
Rovereto/Borgo Sacco - via della Vittoria, 11
Tione - via Circonvallazione, 56
Trento - piazza Lodron, 31
Trento - via S. Croce, 44
Trento - via Brennero, 302/a
Trento - via Enrico Fermi, 11
Villa Lagarina - via degli Alpini, 4

13 branches in Treviso province

Castelfranco Veneto – borgo Treviso, 62
Conegliano - via Cesare Battisti, 5
Conegliano - via Cristoforo Colombo, 42
Crocetta del Montello - via Andrea Erizzo, 64
Mogliano Veneto – via degli Alpini, 16/g/f/e
Oderzo - via degli Alpini, 24-26
Paese – via C. Battisti, 3
Pieve di Soligo - via Nubie 3/d
Preganziol – piazza Gabbin, 16
Spresiano - piazza Luciano Rigo, 49
Treviso - viale IV Novembre, 13/a
Valdobbiadene - via Foro Boario, 21/23/13
Vittorio Veneto - galleria Tintoretto, 3

13 branches in Venice province

Fossò - via Roncaglia, 1
Marcon – viale della Repubblica, 2
Martellago – via Friuli, 28
Mira – via Alfieri, 9c
Mirano - via Cavin di Sala, 39
Noale - via Tempesta, 31
Oriago di Mira - via Venezia, 120
Portogruaro – via S. Agnese, 28
San Donà di Piave - via Vizzotto, 92
Spinea – piazza Marconi, 17
Venezia Mestre, Chirignago - via Rovereto, 8
Venezia Mestre, Marghera – piazza Mercato, 51
Venezia Mestre, Villa Toesca – via Torre Belfredo, 23

Corporate officers

Board of Directors

chairman	Michaeler Otmar	In office since 01/10/2010
	Bergmeister Hansjörg	In office until 30/09/2010
deputy chairmen	Eisendle Arno	
	Salvà Lorenzo	
directors	Alberti Marcello	
	Bergmeister Hansjörg	In office since 01/10/2010 resigned from office 31/12/2010
	Christof Rudolf	
	Froschmayr Philip	appointed effective 01/01/2011 confirmed by the general shareholders' meeting of 17/02/2011
	Gramm Werner	
	Ladurner Lukas	
	Marzola Alessandro	
	Michaeler Otmar	In office until 30/09/2010.
	Seeber Michael	In office until 20/04/2010
	Tauber Margit	In office since 21/04/2010
	Wierer Gregor	
	Zorzi Oskar	

Executive Committee

chairman	Michaeler Otmar
directors	Eisendle Arno
	Christof Rudolf
	Wierer Gregor
	Zorzi Oskar

Board of Statutory Auditors

chairman	Hager Heinz Peter	In office since 21/04/2010
	Vigl Franz	In office until 20/04/2010
standing auditors	Knoll Joachim	
	Hesse Georg	In office since 21/04/2010
	Überbacher Günther	In office until 20/04/2010
substitute auditors	Biasion Massimo	In office since 21/04/2010
	Defatsch Franz	In office until 20/04/2010
	Lorenzon Emilio	

Board of arbitrators

chairman	Bauer Max
standing arbitrators	Bernardi Gino
	Kompatscher Walter
substitute arbitrators	Cimadom Hansjörg
	Stampfl Richard

Management

general manager	Schneebacher Johannes
deputy general manager	Schmidhammer Stefan

Convening of the Ordinary Shareholders' Meeting

Agenda for the ordinary shareholders' meeting, first convocation 26 April 2011 and second, if necessary, for Tuesday 27 April 2011:

1. Reports by the Board of Directors and by the Board of Statutory Auditors for the 2010 financial year; presenting of the financial statements and subsequent resolutions;
2. Remuneration policies and any changes required by new supervisory provisions from the Bank of Italy;
3. Determination of the 2011 share premium on Banca Popolare dell'Alto Adige shares, based on art. 10 of the articles of association;
4. Renewal of four members of the Board of Directors as per articles 29, 30 and 54 of the articles of association;
5. Renewal of the board of arbitrators pursuant to art. 47 of the articles of association;
6. Extension of independent auditors' appointment pursuant to Legislative Decree no. 39 of 27 January 2010.

Directors’ Report

The Global Economy

The National Economy

The Local Economy

Activities and lines of development of strategic importance

Results of operations

THE GLOBAL ECONOMY

(according to the observatory of Banca Popolare dell'Alto Adige taken from the Bank of Italy, ISTAT, chamber of commerce, financial news, in particular: Il Sole 24ore).

2010 was undoubtedly a year of recovery for the global economy. In particular, during the first part of the year the recovery was more obvious while in the second half it slowed down, thereby making the progress from Autumn 2009 more difficult. Although there was high growth in the Eurozone and the United Kingdom, the economies in the United States and Japan slowed down significantly. Growth rates in the main emerging economies continued to be high, although they slowed down slightly. Also the expansion of international trade continued at a steady pace and the volume of goods and services traded worldwide returned to levels similar to those before the crisis. Pressure from inflation was only marginal in advanced countries while there remained a high degree of unused production capacity. They were higher in several emerging economies, especially in India and Russia.
Recent data marked a better outlook in the third quarter, both in advanced economies and in emerging economies. There was also a steady decrease in support for recovery provided by stocks and financial stimulus packages. Also the volume of international trade showed less vigour.
According to recent forecasts provided by the International Monetary Fund (IMF), worldwide economic growth should continue but at a slower rate. It should level off at 4.8% in 2010 and then drop to 4% next year.
The lack of confidence in future developments remains high, which reflects the high level of unemployment in advanced economies and the weak financial situation of families.
The uncertainty in the degree of worldwide financial recovery increased in the second half of the year as a result of the rise in prices for raw materials. This includes energy prices and oil. Demand was expected to rise in 2010 and the price of crude oil rose by about 11% during the year. There was also a considerable rise in prices for non-energy raw materials in the last three months of the year, which included higher prices for food products and metals.

According to forecasts by professional operators surveyed in September by Consensus Economics, in 2010 the Eurozone GDP should grow by 1.6%, with a slight fall slowdown in 2011 (1.4%). The highest growth rate in major economies is by far Germany. These estimates are in line with recent forecasts provided by the European Commission (1.7% average for 2010) and the International Monetary Fund (1.7% and 1.5% for 2010 and 2011 respectively) and forecasts made by the European Central Bank (ECB) published in September, which set growth between 1.4% and 1.8% during the year and 0.5% and 2.3% in 2011.
The inflation rate continued to remain under 2%. Beyond this threshold the European Central Bank might implement different policies instead of the expansion policies of recent years.
On the basis of the inflation expectations of professional operators surveyed by Consensus Economics, Eurozone inflation should be at 1.6% next year. These expectations are essentially in line with the forecasts published in September by ECB experts, who announced that trends in consumer prices were between 1.5% and 1.7% in 2010 and 1.2% and 2.2% in 2011.
The ECB Executive Board kept the official rate at 1.0%. In a context of persisting uncertainty regarding financial markets the Board decided to continue its main refinancing transactions and transactions to maintain the compulsory reserve through fixed-rate auctions with full acceptance of demand until deemed necessary and in any case at least until January 2011.

THE NATIONAL ECONOMY

In 2010 the Italian economy was in line with the international economy. Gross Domestic Product in Italy grew by 0.4% in Q1 and 0.5% in Q2. In Q3 it levelled off at 0.3%, in line with trends seen at the beginning of the year. Slight growth is expected in the last quarter. This positive trend is partially due to the increase in household spending (+0.5%) and higher gross fixed investments (+5%), in addition to increasing exports.
According Bank of Italy estimates average industrial production rose by about 2% in the third quarter. Business confidence declined slightly in September. The steady fall in the construction industry, which has been underway for over two years, does not show any signs of reversing. With regard to demand, in July exports – which was the main source of recent recovery – decreased and continued to fall in August as a result of the drop in exports to non-EU countries. Retail sales continued to stagnate and car registrations rose only slightly in Q3 and remained at very low levels. Household confidence, which had worsened since the beginning of the year, recovered slightly only in September. This was aided by the slow improvement in the employment market. Employment was slightly higher in Q2. Our studies on the economic outlook show that the prospects of business investment remain cautious, in the presence of high unused capacity margins and possible correction of spending in machinery and equipment after tax breaks end. Professional operators surveyed by Consensus Economics in September expect growth in product at 1% on average in 2010.

Inflation, measured according to the change in the national consumer price index over twelve months, rose slightly in Q3 to 1.6% from 1.4% in the previous period. Price trends without food and energy products, settled at 1.6%. Price trends went up in December and 2.2% annual inflation in the Eurozone and also in Italy there was a considerable increase which, according to ISTAT, would put the figure at 1.9%.

The situation of the employment market is still sensitive. The unemployment rate at the end of November 2010 was 8.7%, up by 0.4% compared to the previous year. Although this figure is still rising, it is lower than the average rate in the Eurozone (about 10%). The youth unemployment rate in October 2010 was 28.9%, a 0.9% increase over the previous month and 2.4% rise compared to October 2009.
The signs of recovery, though weak, are confirmed by higher business recruitment activities. In Q2 the number of openings rose to 0.7% (+0.2% compared to the previous year). After a year of improvement, according to an ISAE study employment expectations in manufacturing remained essentially the same in the summer and were lower than those before the crisis. In September the Bank of Italy conducted a study in collaboration with Il Sole 24 Ore and it was found that short-term business expectations for employment were not as pessimistic as they were according to a similar study in June. The number of companies that expect an improvement in the subsequent quarter is less than the number of companies that expect unemployment to rise, however the latter have fallen considerably.

THE LOCAL ECONOMY

Regional industrial recovery continued in the first six months of 2010 following the signs of recovery starting in the second half of 2009. Demand for manufactured goods increased also due to the high growth in exports, which, however, appears to have slowed down in Q3. Production rose, also as the process to use stocks of finished products is ending. The uncertainty regarding the degree of recovery, together with the amount of unused production capacity, continues, however, to influence investment choices. The fall in the construction sector has ended, but income forecasts remain modest. The tourism sector reported an increasing number tourists and sales trends, on the whole, was positive. The rise in employment was weak and temporary lay-offs increased, driven by extraordinary measures and derogations. The considerable increase in persons out of work raised the unemployment rate. Credit facilities for residents provided by the banking system decreased in the province of Trento and the province of Bolzano. This trend is due to lower funding available in the production section, while household loans continued to rise in both provinces. The quality of credit, measured on the basis of non-performing loans, was worse in the province of Trento and remained stable in the province of Bolzano, whereas the other types of non-performing loans decreased. The deposits of residents decreased.

Bolzano Province
63 branches

By the middle of 2010 the economy of Alto Adige showed signs of a relatively positive economy, with certain small grey areas. Although the recovery is slow there are indicators that allow for positive forecasts in the Alto Adige economy without, however, leaving room for high hopes. In this regard, it should be considered that even when profitability indicators hit their lowest point the situation, for the most part, in South Tyrol continued to be positive.

One of the positive signs is the fact that the Alto Adige economy continued to create jobs (+0.9% of the population in Q1 2010). Moreover, the situation of temporary lay-off schemes showed a clear improvement in the first months of the year. A significant number of industrial enterprises returned to full production levels.
After a brief burst at the beginning of the year, the inflation rate returned to a manageable level (2.2% in June 2010).
For the first time, after five consecutive quarters, foreign trade showed signs of recovery (exports: +6.4%; imports: +7.9% over the previous year). This trend is also confirmed by Brenner highway statistics (heavy traffic: +4.3%; light vehicles +1.8%). Lastly, in the first five months of the year the number of businesses registered in the business registry continued to rise slightly.

There are, however, certain negative factors in the Alto Adige outlook. Together with the rise in jobs, the number of people in search of employment nearly reached 10,000 workers. Nevertheless, 3.8% is still a low number in comparison to the national and international unemployment rate. Concerning the credit market demand for company credit decreased, especially in the construction sector and for companies with less than 20 employees.

There was also a slight drop in demand for credit in the hotel sector. Although credit quality started off at an acceptable level it then deteriorated with a rise in bad loans of about thirty-three percent. It is not possible to quantify, in terms of figures, the phenomenon of out-of-court settlements, worsening payment terms and collection difficulties, however, the response of businesses leads one to believe that no sector can be considered unaffected.

Business register: The number of companies registered did not show signs of release. At 31 May 2010, there were 39,700 industrial companies registered at the business registry of the Bolzano Chamber of Commerce (+0.6% over the previous year). This is in addition to the 17,218 companies in the agricultural sector (-0.5%), for a total of 56,918 companies (+0.3% over the previous year). There was an increase in the number of private service providers (+1.5%). There was a slight decrease in the number of companies in the sales sector (-0.7%) and small business (-0.5%).

Employment market: The number of employed workers rose as well as the amount of unemployment. The Alto Adige economy continued to create jobs. According to ISTAT the number of employed workers was up by 0.9% at 1 September 2010 over the previous year. According to the unemployment agency the number of non-freelance workers rose by an average of +1.3% in the first six months.
The main driver of employment remains the hotel sector (+6.9%), followed by private service providers (+2.0%) and sales (+1.6%), only to mention the three most important sectors. The negative trend in the manufacturing and construction sectors gradually weakened.
In particular, the former sector showed signs that in the near future it will have reached its low point in employment. However, despite the number of employed workers there was also a rise in the number of workers in search of employment. According to ISTAT and the employment agency there are nearly 10,000 people in search of employment, which is 14.4% higher than the previous year.

The most recent official ISTAT figure put unemployment in Alto Adige at 3.8%. Also in 2010 there were several companies that applied for preventive lay-off schemes. It is, however, clear that international recovery should correct the process. At least this is what is indicated by the statistics on hours actually worked in the first 4 months of the year.

Inflation: Moderate price trend.
Inflation in Bolzano rose steadily in 2010 and in April it stood at 2.6%. Price trends then slowed and inflation stood at 2.2% in July. In the first six months of the year the inflation rate in Bolzano remained above the national average (by nearly 1%).
It is also interesting to note how price trends in different capitals behave in a different manner. In June, for instance, prices in the food sector (-0.7%) and in the information sector (-1.2%) fell, whereas there was a rising trend (about 3%) in other categories, such as housing, training, transport and hotel sectors.

Credit market: Private loans rose while company loans fell slightly.
According to Bank of Italy data the total volume of loans in Alto Adige at 30.04.2010 amounted to Euro 19,336.8 million, an increase of +0.4% over the previous year.
Considering only company loans – about 75% of the whole – there was a slight drop of -0.2%.
There was, instead, an increase in private loans (+6.3%). There was a considerable rise in credit facilities provided to manufacturing companies (+8.6%) – mostly large companies – while in the construction sector the amount of credit provided fell significantly (-14.6%).

A WIFO survey involving the three biggest banks in Alto Adige confirms this trend. The value of non-performing loans grew compared to the previous year by nearly one-third. In April of this year it was 3.0% of all credit facilities.

Foreign trade inverted its trend.
For the first time, after five consecutive quarters, foreign trade showed signs of recovery. In the first months of 2010 exports rose by +6.4% over the previous year, whereas imports rose by +7.9%. Exports rose considerably especially to Austria, France, Holland, the USA and Spain. There was a very slight increase in exports to Germany.

The exact opposite happened with imports: a significant recovery with Germany and a very weak recovery with Austria. The recovery in exports is mainly in the categories related to computers, electrical devices and precision tools, as well as metals and metal products. Consumer goods, such as agricultural products, foodstuffs and drinks played a lesser role. No growth was reported in vehicles and components. Alto Adige foreign trade is still below the levels reported before the crisis, however, it appears that recovery has certainly started.

Consumer confidence in Alto Adige.
In April 2010 consumption in Alto Adige was higher than the EU average and much higher than the Italian average. It was more or less at the same level as Germany, but much lower than in Austria. From January to April the degree of consumption fell slightly.

The situation of Alto Adige companies.
The most recent data is clear: both profitability and profit forecasts show signs of recovery. In relation to economic policy this is important because both indicators had been falling for some time, and this was the first time they started rising. Assessments on revenue actually earned are therefore technically more reliable.

Trento Province
20 branches

In 2010 there were two important factors in economic and employment figures referring to companies in Trento. The former is the degree of recovery in terms of economic results and the latter is that employment trends are once again positive, though still weak. Thus, Trentino, like the rest of Italy, finally shifted from crisis to growth and this had an impact on the employment market, which was previously stagnant.
Economic growth was particularly evident when observing changes in trends, i.e., turnover and value of production rose by 18.1% and 18% respectively over Q2 of the previous year. Several quarters had passed without such significant percentages, which are after the already highly positive trends in the first quarter of the year.
The trends in turnover in the province are surprising (+21.1%), a percentage that is very similar to the foreign component (+23%) and much higher than the domestic component (+9.4%). The recovery, which at first seemed to be driven mainly by foreign demand, appears to have now been made stronger by the contribution from internal demand.
After several quarters causing concern employment began to show signs of recovery. The change is significant and the year over year change is also positive, though not as high.

The manufacturing industry consolidated its rising trend, which began in Q1 of 2010, with YoY growth in turnover (+19.1%) and value of production (+25.6%). Like in previous months, the main driver in the sector is foreign demand, but also local demand is increasing. The sectors mainly responsible for the positive trend are chemicals and rubber goods and textiles-clothing, while there was a downward trend in the food sector.
There is still uncertainty in the small business segment. On the one hand the positive trends in turnover and the value of production are reassuring, also considering the stronger economy. On the other hand, however, this YoY rise in economic figures is much lower than the overall figure for the entire economy and the difference in growth compared to almost all the other sectors is clear. There are signs of recovery for employment.
The mining sector shows a considerable downward trend compared to the rest of the economy in the province. YoY turnover fell by 8% and the value of production by 11.4%. The segment was mainly impacted by the fall in domestic demand, while local and foreign components remain steady.
Figures concerning construction companies are difficult to interpret and it is not possible to establish clear trends in the sector. Turnover rose compared to 2009, while the value of production

fell. These opposing trends are not irregular, since timeframes for production and sales in the sector are separate. The considerable decrease in YoY employment and hours worked leads one to believe, however, that the sector has not yet completely overcome the crisis, which hit it so hard in recent quarters.

The distribution segment showed a significant recovery in turnover and the value of production year over year. However, wholesale and retail trends are different. Sales revenue from retail distribution grew significantly, whereas the trend in wholesale was much more moderate. Trends in employment are similar compared to the previous year, which are slightly negative in both sectors.

The transport sector held the highest growth. The change in YoY traffic was decidedly positive as well as turnover. The segment, which makes 90% of its total sales from outside the province, benefited from the recovery in the foreign component and especially in the domestic component. Employment also rose considerably.

The company service sector reported the best trends in terms of turnover and employment together with the transport sector. YoY sales and employed workers were higher compared to the previous year. Nevertheless, against the good performance mentioned above there were also highly negative trends in the economy compared to previous months, with the exception of employment, which rose. It is therefore necessary to wait for the results of future quarters to give an accurate interpretation of actual trends taking place.

The second quarter confirmed that there is a recovery underway moving at two speeds. On the one side there are the companies employing over twenty workers, which reported considerably positive YoY turnover trends (over 20%), and on the other there are small and very small businesses that have not yet shown any growth indicators. Rather, companies with less than ten employees still show negative trends in turnover and value of production.

Also in 2010 there was a difference between the economic figures referring to companies on the one hand and the perception of entrepreneurs on the other. The former, as mentioned above, are very positive on the whole, while according to company managers there was not significant improvement in assessments on company profitability and the economic situation. In particular, the number of those who consider the situation unsatisfactory (23%) and those who consider it good (14.6%) is still negative, although pessimism has reduced compared to three months ago. Assessments on company forecasts are more encouraging. In this case, there are more who feel there will be growth (20.3%) compared to those who feel there will be no growth (11.4%).

Belluno Province

21 branches

In 2009 the Belluno economy hit a recession and in the second half of the year there was a partial standstill in production, turnover and exports. At the end of the year there was a slight correction of negative figures related to companies, however, there remained a considerable distance from an actual recovery and the overall outlook for the year was marked by non-performance in the production system, especially employment. In any case the local system withstood the crisis: for instance, the dreaded decimation of business did not take place.

At least from a numbers standpoint, at 30 June 2010 the majority of Belluno companies did not report exceptional falls: their total in one year dropped by 100 (-0.7%) from 15,369 to 15,269. The national average (-0.3%) and Veneto average (-0.4%) are slightly better, but the situation was worse in Venice, Treviso and Rovigo. The numbers continued to fall over time for transport companies (-1.7%), sales continued to be dim (-1.2%), while the hotel and foodservice industry was stable (+0.7%) and the construction industry did not lose ground.

The segment showing the most difficulty was manufacturing, which in one year fell from 2,053 to 1,999 companies (-2.6%). Among these are the main sectors such as the timber industry (-1.8%), furniture makers remained stable, but mechanical engineering companies had some difficulty. Companies manufacturing metal goods fell from 397 to 387 (-2.5%), while machinery manufacturing lost 9.9%, from 104 down to 94 companies. The eyewear industry continued to fall: total companies dropped from 324 to 305 (-5.9%) and from 421 to 388 local (-7.8%). Handcrafted eyewear was even worse: 16 companies have been lost, the total of which fell from 192 to 176 companies (-8.3%) and 18 local (there used to be 210 and now there are 192, -8.6%).

The effects of the economic crisis, especially with regard to household consumption, were also felt in the primary sector and brought damage to meat producers (with a fall in cattle sales) and the dairy sector, which experienced a six-month period of stagnation. There were positive trends in nursery gardening, farmhouse tourism and small fruit growers.
Category associations reported a climate of general uncertainty amongst agricultural operators, who had placed a great deal of hope in the Regional Agricultural Development Plan: about half of the applications submitted were not accepted by the Region so the funding could not be attained. This inevitably impacted growth forecasts and new business, especially amongst young entrepreneurs, right at a time when the latter were gaining new interest in the agricultural sector.
Recovery is being driven by international trade: indeed, foreign orders in the first two quarters rose in both (+16.1% and +30.7%), much higher than in Veneto (+13.6% and +6.8%). Also these indicators proved how Belluno performed better than Veneto.

After a period of continuing reduction in small business stock, at 30 June there was a slight increase in the sector, however, it was still lower than the absolute figure at the end of 2009. Nevertheless, the reversal of this trend is significant since it is the opposite of the fall in overall Belluno business.
Small business owners reported a recovery in orders starting from the summer, however, it is still too soon to determine whether this is a sufficiently structured and long-term trend, or if the improvement is contingent. In any case, there appeared to be signs of confidence towards markets and a certain dynamism in the sector.

In October 2010 Confcommercio announced that after two quarters of moderate growth, in August the household consumption index was 0.3% lower than July and 0.7% lower than August 2009, thereby confirming the “continuing weakness in demand for household consumption”, after such a difficult 2009 (-0.6% YoY mean). With a consumption trend of -1.3%, at the beginning of 2010 the segments that held their ground were spending for communications and consumption of goods and services related with foodstuffs, the home, personal care and hotels and foodservices, while there was a drop in consumption of goods and services related to recreation, transport, clothing and footwear.

Belluno tourism was relatively in line with the regional average and had better results than the Veneto mountain areas, with +0.6% arrivals and not as much of a drop in accommodation provided (-0.5%). From January to June there were a total of 334,338 tourists (228,081 Italian and 116,257 foreign) and they stayed in the area for 1,726,855 nights (1,161,726 for Italians 565,129 for foreigners).
Performance was considerably good for accommodation providers (+2.8 arrivals and +3.0 accommodation provided). The highest percentages were reported by four and five star hotels, while those with one or two stars fell dramatically.

Based on companies disclosures to provincial employment centres, there was a further drop in employment in the province of Belluno in the first half of 2010: the difference between hired

workers and terminations was negative (-1,335 workers), though less by about one thousand compared to the figure in the first six months of 2009.
The figure was positive for Belluno (+211) and Feltre (+305), but negative for Agordo (-661) and Pieve di Cadore (-1,190).

Treviso Province
13 branches

The regional system is too small and dependent to be immune from international economic trends. In 2009, there was a 5.3% drop in added value in Veneto. This figure was even higher in the province of Treviso (-6%) because of its high industrial concentration.

In 2010, regional and provincial recovery, driven by better performance in world trade, will be weak but in line with the national average (+0.9% and +0.8% respectively) and it should be consolidated only starting in 2011.
The industrial sector was hit worst by the crisis, even if it was primarily a financial crisis. In Veneto the fall in added value produced was more than 12%, less than the Italian average (-15.1%), considering the highly specialized nature of local production. The main cause of this fall is the standstill in international trade: the fall in exports was very strong with a drop of 23.5% in 2009 in Veneto and 21.2% in Treviso. Already in 2010 all the sectors, with the exception of agriculture, should start their recovery even if higher rates are only expected in 2011.
In 2009 the impact of the recession in the different areas of the Treviso economy was harder on industrial specialization: Conegliano, Vittorio Veneto, Opitergino Mottense and Quartiere del Piave reported a drop in added value for more than 6.5% (between 6.5 and 7.1%). The fall in added value in the service sector was lower (-3.4%).

The full impact of the crisis only recently hit the employment market. Recourse to lay-off schemes, vacation leave agreements and a concerted effort made by both companies and workers the fall in employment in 2009 was less than the fall in production: compared to the same period in the previous year the fall amounted to 2.2% (47 thousand workers) in Veneto and 5.8% (23 thousand workers) in Treviso. Thus, employment rates were at 2005 levels, 64.9% for Veneto and 65.7% for Treviso in 2009.

Concerning the unemployment rate, as expected, it rose: in 2009 people in search of employment in the region amounted to about 106 thousand with a rise of 26.4 thousand over 2008, making the unemployment rate rise from 3.5% to 4.8%. People in search of employment in the province rose by 32.3% (amounting to 4.5 thousand workers), making the unemployment rate rise from 3.4% to 4.7%.

Considering the usual delay for the employment market to respond to economic cycles, employment levels should not go back up at the same time as any rise in GNP. It should level off in the middle of 2010 and then go up slightly towards the end of the year. On the whole, jobs will continue to be lost in 2010, with a reduction of nearly 30 thousand workers in Veneto, reaching a total of 2,082 thousand workers (-1.4%). In 2011 employment should grow again, though weakly, with an increase of 0.5%, which corresponds to about 10 thousand more workers. Considering a constant growth rate of 0.5% over the next few years, the highest rate reached in 2008 can be expected in 2015-2016.
Considering the significant change in the employment rate recorded in 2009 (corresponding to half of the change recorded in Veneto), it is expected that Treviso, unlike the regional level, should

have an increase in employment of 1% in 2010 (about 3.7 thousand more workers) and a more limited growth rate in 2011, in line with the regional figure (+0.5%).

Venice Province

13 branches

The results of the Veneto economic survey in Q2 2010, conducted by Unioncamere Veneto, showed a rise in the main indicators thus confirming the recovery at the beginning of 2010 with respect to the “bottom” hit in 2009.
On a year over year basis, production was at +8.2%, turnover +10% and orders rose (+7.1% domestic and +12.9% foreign). Employment fell (-2.3%). Production rose by +7.9% and turnover by +10,8%; domestic orders improved (+8.9%) as well as foreign orders (+6.7%) and employment levels remained steady (+1.1%).
The trends described above showed two differences according to the size of the company. There were higher reductions for smaller companies yet there was growth for companies with over 10 employees. Orders were steady for both types. In particular foreign orders for smaller companies and both domestic and foreign orders for larger companies.
Concerning forecasts for the future, turnover is expected to rise (+9.1%) as well as production (+3.1%) and domestic orders (+4.2%), whereas foreign orders are expected to remain steady.

In Q2 2010, small businesses operating in Venice amounted to 21,071, up from the first three months (+1.1%), but down from Q2 2009 (-1.6%). In particular, manufacturing and construction showed native trends as well as sales and transport, while there were positive trends for leasing (+6.1%), which includes tourist agencies and other company services, +3.6% for tourism and +9.9% for information and communications services. Concerning the legal status of companies, on a year over year basis there was an increase in joint stock companies (+5%) and other forms of enterprise (+5.5%).

From April to June 2010 there were 563 registrations (110 more, about +24.3%, than the same period in 2009), while terminations (including automatic cancellations) amounted to 352, a drop of 21.4%. New small businesses registered were concentrated in the construction and manufacturing sectors, the same sectors where there were the highest number of terminations.
There is clearly a recovery in registrations. This trend, which is finally positive, does not include only a few sectors (sales, tourism and personal services, though the negative trends are not significant in terms of absolute value) and general partnerships (-27.9%). Concerning closures, only joint stock companies grew substantially (from 7 to 26 terminations), while – by sector – there was a general fall in all segments, which is a sign of recovery also in small business.

The figures on tourism in the province of Venice in Q2 2010 showed an unfavourable situation for the amount of accommodation provided and arrivals. In April-June there were nearly 8.9 million tourists visiting the province (about 56% of regional visitors), which is a YoY decrease of 4.1%. The 2.3 million arrivals are at the same level reached in the same period of 2009.

Pordenone Province

3 branches

The positive signs shown in the most recent survey were confirmed in Q2 2010, after the further improvement in production was anticipated by company forecasts in the sample.

After the drop in production stopped there was a recovery in production levels back to those before the crisis of last year. As seen in the first quarter, for most of the variables monitored the positive sign was also due to the fact that the end of the comparison with trends is the most critical phase of the production cycle.
The outcome is positive change, in addition to higher trends (compared to the previous year) in production and turnover (+10.1% and +11.5% respectively). There was a considerable rise in the foreign component, which is very important for the production trend in the sector. Foreign turnover trends amounted to +16.3% and foreign orders reached +16.8%.
Also domestic demand followed the recovery in foreign demand with a trend in domestic orders amounting to +9.4% against the previous +1.4%. There are highly positive forecasts concerning world trade in goods and services, which in 2010 should return to positive figures, as reported by the latest publication by the International Monetary Fund; from -10.7% in 2009 (one of the worst since WWII) to +7% expected this year.
The recovery in foreign demand in the first part of the year was a determining factor for the sector and the degree of the recovery was diversified between local production specializations according to their level of internationalization. The production segments that responded to positive trends best in foreign demand were: metalworking and mechanical engineering, due to its high and historical focus on international markets, over 50% of turnover was from foreign demand, and other manufacturing with a 37% amount of foreign turnover.
The figure that remains critical is employment: for over a year the trend has been negative, which was alien to the local system as the segment had reached full employment. The change in the trend was -2.1%, in particular due to the negative trend in small enterprises (less than 50 employees) and strategies to limit labour costs implemented by large enterprises (over 250 employees).

The following circumstances lead us to believe that the crisis is not completely over: a significant number of companies (20%) that have recourse to lay-off schemes for at least 60% of employees; the average capacity of utilization of plants in stand-by at 67%, against the previous 64%. The rising trend confirms, however, that there is a recovery underway in comparison with the previous year. After a services of negative trends in sales prices last year, this year there has been hardly any change (+0.3%). This figure, together with positive production costs, is a sign of growing demand for manufactured goods. Lastly, the change in trends with regard to stocks of finished products remains negative (-4.6%): companies continue to remain prudent and produce less than required by domestic and foreign demand, which is still recovering.
Since the second half of 2007 there has been long-lasting and intense difficulty in the construction sector. Production trends remain negative at -7.5% in the quarter against -10.4% in the previous quarter. Turnover showed positive trends thanks to companies considered more representative of the sector. Like the previous quarter, in the short-term there should be more stability since domestic orders recorded a figure nearing zero (+0.3%).

Forecasts are oriented towards stability. Most of the people surveyed (over 50%) forecast changes in production and turnover in the next quarter between -2% and +2%.
After a long period of falling sales due to the difficult economic situation, the retail sales sector continued a period of positive trends. Although sales trends in the sector were only slightly positive (+0.5%), this result in the first half of 2010 came after two years of falling sales.
Sales prices rose by +1%, which is in line with the change in procurement prices, thereby confirming the return of inflation trends reported by ISTAT in recent months.
Forecasts are oriented towards sales stability in the short-term. Over 40% of those surveyed expected a change in sales between -2% and +2%.

There was a fall in sales between Q1 and Q2 of -0.6%. This sign is not very promising since according to seasonal trends in the sector the second quarter of the year generally marks its peak.

ACTIVITIES AND LINES OF DEVELOPMENT OF STRATEGIC IMPORTANCE

Corporate Governance

Banca Popolare dell'Alto Adige corporate governance consists in a series of relationships established between boards, the control chain and ownership, which expresses the organisation on which the Bank's business structure is founded, i.e. the structure through which objectives are set, the means for pursuing objectives are established and results checked. Good corporate governance practices implement a clear distinction between functions and the clear balance of power and they steer the pattern of delegation and the flow of information according to consistent framework of organisational engineering. They ensure directors and strategic executives adequate incentives and compensation to achieve their targets in line with the Bank's interests and that they implement an efficient control system. Set out in this way, governance safeguards the reputation of the Bank and individuals and sets up the basis for trust and confidence in relations, which is indissolubly bound to the company purpose of Banca Popolare dell'Alto Adige.

Formalized in the first draft of the framework document "organisational and corporate governance plan" 25.06.2009, the corporate governance plan is monitored constantly to comply with the standards and guidelines of regulatory bodies and the Bank.

In accordance with the Bank's articles of association, the organisational and corporate governance plan works as a matrix from which all other guidelines and internal management documents originate. In particular the formation of relational and functional processes and safeguard mechanisms which ensure that Banca Popolare dell'Alto Adige is operated and managed in a correct, healthy and prudent manner.

In 2010 Banca Popolare dell'Alto Adige set up the following for governance:

Changes to the articles of association, new procedures to elect members of the Board of Directors

In April 2009 the general shareholders' meeting resolved to amend the articles of association by introducing the supervisory provisions of 04.03.2008 on "bank organisation and governance". The introduction did not change the system for appointing members of the Board of Directors until 31.12.2010. The system provided for the appointment of candidates from electoral groups by geographical area. Revising the procedure to renew the Board of Directors was extremely important for the Bank's governance system and its development. This was done with qualified legal support starting in 2009 and by mid October 2010 the draft articles of association were approved by the board. An extraordinary shareholders' meeting was called to approve the amended articles of association in compliance with the supervisory provisions in force. The project placed special attention on ensuring mechanisms to appoint suitable directors to support adequate representation of the various components.

At the end of 2010 the Bank of Italy announced that the draft articles could be submitted to the shareholders' meeting for approval in accordance with art. 56 of the Consolidated Bank Act. Thus, Banca Popolare dell'Alto Adige called an extraordinary shareholders' meeting to be held 16-17 February 2011 to assess and resolve on the proposed amendments with regard to the new system to elect board members.

The amendments were approved by the shareholders' meeting on 17.02.2011 as proposed by the Board of Directors, thus introducing the slate voting system as expressed by the shareholders as a single electoral body. The slates are compiled in accordance with the articles of association and applicable meeting rules, with the signature of the number of shareholders that

i.) represent at least 1% of the shareholders as at 31.12 of the year prior to the meeting passing the vote (the number is rounded up to the next 50); or
ii.) hold at least 0.5% of the shares of Banca Popolare dell'Alto Adige in circulation on the 90th day prior to the meeting passing the resolution.

Each shareholder can submit only one slate and with a signature certified by a notary or signed before a Bank employee in possession of the requirements assigned by the Board of Directors. Any slates that are not completed according to Bank requirements and regulatory provisions by the deadline for submission, or are in any way irregular, cannot be acknowledged by the shareholders' meeting.
In the presence of more than one slate validly submitted to the meeting, the shareholders shall appoint

i.) from the slate receiving the most votes in the order indicated on the slate: all the directors (majority) with the exception of the last one;
ii.) from the slate receiving the most votes amongst the others (which, as a whole, obtained the vote of at least 1% of the shareholders by 31.12): the director (minority).

This division shall be valid from year to year until a minority director can be appointed. Once the minority director is appointed, for the entire term of office, all board members leaving office shall be renewed from the slate receiving the most votes, so that the Board of Directors will have only one minority director at all times.
In order to reinstate the number of board members where necessary, the leaving director, if majority, shall be replaced by vote from individual candidates during the next shareholders' meeting, while the minority director is replaced by the first candidate not elected from the same slate.

Information flow, formal interaction system and access to information by board
In 2010 Banca Popolare dell'Alto Adige implemented supervisory guidelines so that the forms of communication and exchange of information could ensure that the bodies responsible for strategic supervision, oversight and management of the Bank could have at their disposal "complete, timely and accurate" information and at the same time "measures were undertaken to prevent disclosure of confidential information". The Bank

- adopted, with board resolution of 25 March 2010, the framework document ("information flow system") regulating the minimum content of the executive information process in Banca Popolare dell'Alto Adige;
- introduced a network platform ("data room") to consult protected documents to enable remote access by board members and statutory auditors after due validation.

The "information flow system"
The document is an integral part of the organization and governance plan 25.06.2009 and includes the diagram showing formal interaction between company bodies – such as the Board of Directors and commissions and board committees; the board of statutory auditors; general management – and with company departments that regularly report to company bodies.
The document describes the formal information flow as a whole and facilitates understanding how to improve communications, increase the sense of responsibility in the organisation and ensure the conditions necessary for management to make decisions in an informed manner.

The "data room"

Access to information is an essential condition for directors to make informed decisions and to ensure operational efficiency and effectiveness of oversight.
The responsibility of company representatives, in relation to the specific duties each one holds as well as each company body, reflects the need for quality information. Quality of information is considered when the representative can immediately gain access to data, news and information that can support his or her duties at Banca Popolare dell'Alto Adige and when internal documents can be produced on a continuing basis. In order to ensure timely information, the Bank set up a virtual data room containing protected documents for company bodies. The network architecture of information flow requires special security. In order to prevent disclosure of confidential information access to the data room is controlled by restrictions complying with the general standards and supervisory provisions of 04.03.2008 on company organisation and governance. The directors and statutory auditors operate in the data room with the professional diligence expected for their office.

Remuneration policy, update
Under the framework of bank organisation and governance several regulatory provisions and standards on remuneration policy and practices have been introduced aimed at reaching, within the system, salary and incentive models that do not clash with the policies of prudent risk management and with long term intermediary strategies.
The shareholders' meeting approval of the remuneration policy and the yearly compliance report the board is required to submit to the meeting, as instructed by the Bank of Italy, is basically for the purpose of raising awareness and monitoring overall costs, benefits and risks involved in the system. The principles set forth in the supervisory provisions set forth, in particular, that the remuneration and incentive system should ensure (i.) a correct balance between fixed components and variable components of remuneration and (ii.) a weighted risk system risk and mechanisms aimed at ensuring the variable parts of remuneration are pegged to actual and long-term operating results of the Bank.
Based on the applicable regulatory framework at the beginning of 2010, which is under discussion by the EU, the Board of Directors submitted a proposal to the general shareholders' meeting of 20.04.2010 (which was approved by the latter) to introduce amendments to the document regulating remuneration and incentive policies for Banca Popolare dell'Alto Adige.
The policies adopted by the Bank ensure that the overall amount of variable remuneration in relation to the risks undertaken should not limit the capacity of adequate bank capitalization and that such remuneration

i.) should be paid when the results from operations leading to payment of such amounts are considered in place in the long-term;
ii.) should be adjusted on the basis of multi-year indicators of operating results, taking into account bank profitability over time according to adequate indices for risk, capital cost and liquidity;
iii.) should be recognised according to actual performance and to trends in operating results;
iv.) should take into consideration overall management and individual performance.

Internal oversight committees and company bodies (according to the duties assigned) should check the adequacy of policies adopted and their compliance with the regulatory framework as well as ascertain whether the remuneration practices adopted are compliant. The Chairman should report to the general shareholders' meeting, by including a specific item on the agenda, on the outcome of compliance checks.

At the end of December 2010 the Bank of Italy opened up a new oversight section on bank remuneration and incentive policies and practices. The new provisions shall implement directive 2010/76/EU of 14.12.2010 and replace all previous oversight provisions on the matter.

Management of conflict of interest, transactions with related parties

With Rule 17221 of 12 March 2010 as amended, Consob issued “provisions on transactions with related parties”. With document 04.05.2010 the Bank of Italy published the framework of provisions and rules concerning the “new oversight framework on risk and conflict of interest with related parties”. The new regulatory provisions (the ones from the Bank of Italy are expected to be announced at the date of this report) provide that all transactions, with or without payment, the Bank makes with a “related party” (defined by Consob according to IAS no. 24) or with any “associated party” (which the Bank of Italy includes as “related parties” and “parties linked to related parties”) should be

- determined
- tracked according to specific indices (and for the Bank of Italy by prudent ratios)
- where necessary, subject to a special resolution procedure and
- notified according to special obligations for transparency and accounting.

The special conditions for “procedure”, “transparency” and “quantity (Bank of Italy)”, applicable to these transactions should create an oversight system for transactions with parties that can potentially influence the resolution process when granting credit and when conducting financial negotiations concerning the Bank which might cause potential damage to the stability of bank equity at the expense of deposit holders and shareholders. Under the regulatory framework company representatives are especially mentioned as well as other parties that can have an influence on bank operations, however, there can also be conflict of interest when the Bank is significantly exposed to a certain party or when the Bank holds considerable interests in a company.

The regulatory framework provides that banks should adopt suitable procedures to oversee transactions with related or associated parties (according to their connection with bank decision-makers and their relation with each other). These rules shall have a major impact on the organisation of operational processes. First of all, Consob Regulation effective from 1 December 2010, making it necessary to define a set of internal rules and prepare a suitable ICT architecture for monitoring such transactions, the authorisation process, the management of periodic and special information flow, general ledgers, procedure and document tracking – all of which with a certain degree of uncertainty with regard to the upcoming regulatory provisions to be announced by the Bank of Italy.

By resolution of 25.11.2010 the Board of Directors adopted the procedures to apply in order to comply with art. 2391-bis civil code, Consob Regulation no. 17221/2010 and the Bank of Italy rules in force concerning “transactions with related parties”.

Starting from 01.01.2011, undertaking any risky operations and any other transfer of resources, services or obligations, regardless of whether payment is provided, enacted by Banca Popolare dell’Alto Adige or by a company directly or indirectly controlled by the Bank, with “related parties” or with “associated parties” and related parties, such transactions are to be monitored and go through a special resolution and reporting procedure. When these transactions are considerable due to regulatory provisions they should be accounted for in relation to the related party involved and such transactions during the year or carried out for the same purpose and the connection between the related party and associated parties should be assessed.

In consideration of the organisation of the Bank at the date of reference (01.01.2011), the following are considered as “parties related to Banca Popolare dell’Alto Adige”:

a) Members of the Board of Directors, standing statutory auditors, executives at head offices;
b) Companies controlled by Banca Popolare dell'Alto Adige or where the Bank holds considerable influence;
c) Companies that can influence the financial or management policies of Banca Popolare dell'Alto Adige.

At the date of reference (01.01.2011), the following are considered as "parties associated to Banca Popolare dell'Alto Adige":

d) Companies controlled by a party related to Banca Popolare dell'Alto Adige;
e) Parties that control the related party indicated under letter (c) or subject to joint control by the related party;
f) Relatives up to the 2nd degree, spouse (not legally separated) or common-law spouse, children of spouse/common-law spouse of any related party indicated under letter (a);
g) Companies, also without legal personality, where a party indicated under letters (a) and (f) holds considerable influence.

Transactions with related or associated parties are divided by degrees that determine the different procedures for authorisation, disclosure and reporting. The thresholds are:

- Transaction involving insignificant amount: less than 0.01% of regulatory capital and less than Euro 250,000;
- Transaction involving significant amount: amount is considered significant but there is no indicator that would make it a major amount;
- Transaction involving major amount: over 5% in at least one of the following three indices of significance:
  - (i.) significance of value (of the transaction in relation to the Bank's regulatory capital)
  - (ii.) significance of assets (of the company/other business in relation to the total assets of the Bank)
  - (iii.) significance of liabilities (of the company in relation to the total assets of the Bank)

The nature of the transaction determines the index to apply.
Minor transactions are accumulative and might become major when they are similar in nature and carried out during the same year or in any case when they are for the same purpose.
The following are not included in authorisation and reporting procedures:

- Transactions involving insignificant amounts:
- Ordinary transactions made at standard conditions or conditions dictated by the market;
- Transactions with subsidiaries;
- Transactions made in accordance with regulatory instructions in the interest of bank stability;
- Payments in accordance with remuneration policies and by resolution passed by the general shareholders' meeting or related.

Administrative liability of the Bank as per Legislative Decree no. 231/2001

Legislative decree no. 231 of 8 June 2001 ("Legal rules on administrative liability of legal entities, companies and associations also without legal personality"), adopted a series of EU and international rules that make legal entities liable for offences attempted or committed in their interest or to their benefit by parties functionally linked to them. Not only does this include wilful intent (e.g., white collar crime) but also when due to a lack of organisation or supervision/oversight. Where proven, administrative liability held by an entity (independent from the natural person who committed the offence) results in pecuniary sanctions for the entity (which can be particularly high) and, in more serious cases, prohibitory injunctions.

With Legislative Decree 231/2001 lawmakers attempted to instil a corporate culture that focuses on prevention in order to minimise the risk that certain offences might be attempted or committed in their interest or to their benefit by parties that hold high-level positions (such as top management) and persons (employees and other workers) under their control.

In order to prevent administrative liability due to an offence committed by a natural person functionally linked to an entity, the latter should set up an adequate organisation structure so that any such offence cannot in any way be related to a “fault in organisation”. More specifically, the entity is not held liable when:

- The executive body (the Board of Directors in the case of Banca Popolare dell'Alto Adige) adopted and effectively implemented, prior to the offence, adequate organisation and management models to prevent such offences;
- The task of overseeing compliance with the model was appointed to a special body (Supervisory Body) with independent powers of initiative and control;
- The body mentioned above did not fail to perform its duties or did not perform them insufficiently.

Adoption of Organisation and Management Model

Although Banca Popolare dell’Alto Adige had already set up a consistent and functional system of rules (also to prevent offences that could be committed by parties “associated” to the Bank on the basis of risk assessment), it was deemed necessary to adopt an organisation and management model that would meet the needs and prescriptions expressly required by Legislative Decree no. 231/2001.

This consists in identifying activities exposed to risk (i.e., those where certain offences might take place as per Legislative Decree no. 231/2001) and implementing a group of organisation measures and rules for all parties working in the interest, to the benefit or on behalf of the Bank, in order to:

a) Raise awareness that if the rules in question are violated then this may constitute an offence and result in sanctions against the person committing the offence and the Bank;

b) Reiterate that Banca Popolare dell'Alto Adige shall not tolerate illicit conduct of any kind or for any purpose and such conduct (even when apparently to the Bank’s benefit) is against the ethics and principles of the Bank;

c) Strengthen and improve mechanisms for oversight, monitoring and discipline in order to prevent such offences from being committed.

The model was approved by the Board of Directors on 22.12.2005 and updated on 20.12.2007 and 18.12.2008. It was then fully revised and approved on 21.12.2010.

The organisation model is an internal framework of rules for the Bank and it is considered binding.

The offences where administrative liability is held are under the following categories:

a) Offences committed in relations with Public Administration

b) Administrative offences resulting from market abuse

c) Company offences

d) Offences related to handling, laundering and use of illegally gained goods, services or money

e) Offences related to computer crime

f) Offences related to copyright violation

g) Violation of regulatory provisions on health and safety at the workplace

h) Inducing persons to provide misleading statements or not to provide statements to court authorities

i) Counterfeiting coins, tender, revenue stamps and instruments or recognising such

j) Offences related to terrorism or disrupting democratic order
k) Offences against individual personality
l) Mutilation of female genital organs
m) Offences related to organised crime
n) Cross-border crime (Law no. 146 of 16 March 2006)

The Supervisory Body under Legislative Decree 231/2001 – Update to model and three-year intervention plan
The Supervisory Board was set up in compliance with the Decree to oversee operations and ensure the Bank's organisation and management model is effective and complied with. It is also in charge of updating the model.

In 2010 another member was added to the Supervisory Board (a external legal expert) and the organisation model was revised after an external consulting company assessed it in 2009.
The organisation model was mainly revised in the second half of the year by compliance staff in collaboration with the internal audit office.

The primary elements of the new model are listed below:

- Adoption of criminal instances added after approval of the previous model (December 2008);
- Details added to the disciplinary framework under the Decree (more structure and description);
- Details added with regard to criteria (objective and subjective) for attributing administrative liability and any discharge from such liability (according to whether the offence was committed in the interest or to the benefit of the Bank by top management or by persons under their control);
- Specifications on parties subject to the model (i.e., parties required to know and comply with the model) and obligations concerning dissemination;
- Addition of Supervisory Board Rules in the general part of the model (revised and structured);
- Addition of bank corporate governance organisation in the general section as well as the oversight system in force;
- Addition of all offence categories in the special section of the model as provided by Legislative Decree 231/01 (copying the words set forth in articles 24 to 25-novies.1) or under its framework (cross-border crime);
- Addition of wording related to offence instances (or administrative offence) set forth in articles 24 to 25-novies.1 of the Decree;
- Brief explanation of each offence in order to render the descriptions more understandable;
- Specification (by entity and duration) of sanctions (pecuniary and prohibitory respectively) applicable for each of the offences outlined;
- Detailed description of conduct that may result in offence (sensitive areas);
- List of rules of conduct (obligations and/or prohibitions) which, with respect to each category and instance of offences, the parties subject to the model shall comply with (revised code of conduct);
- Introduction of risk exposure scheme in relation to offences affecting the Bank most in consideration of its specific organisation (by organisation unit).

In the meeting held in December 2010, the Supervisory Board also approved the "2011 – 2013 Intervention Plan", thereby making the organisation model effective.

Anti-Money Laundering Regulations under Legislative Decree 231/2007

Money laundering and funding terrorism are criminal activities, also due to their international nature, that are a serious threat to the economy and can have destabilising effects above all for the banking and financial system.

In order to make anti-money laundering laws fully effective it was necessary to undertake an important process to standardise international laws to prevent movement of money from criminal activity. Moreover, there are geographical areas and territories where regulations are not in line with international best practices and where more severe anti-money laundering inspections should be applied due to their higher risk.

In the EU, Directive 2005/60/EC (the *Third Directive*, which replaced 91/308/EC and 2001/97/EC) brought European standards in line with the GAFI Recommendations of 2003. The Directive was transposed into Italian law with legislative decree no. 109 of 22.6.2007 (anti-terrorism), and no. 231 of 21.11.2007 (anti-money laundering).

Legislative Decree 109/07 contains measures to prevent and fight funding of terrorism and made rules more systematic with regard to obligations brokers and intermediaries are to fulfil when dealing with parties who are suspected of being involved in terrorist activity.

Legislative Decree 231/07 restructured the entire framework on the prevention of money laundering. It especially focuses on the collaboration between authorities, also by assigning the Financial Security Committee (FSC), at MEF, as the body responsible for analysis and coordination.

The general objective of these provisions is to protect the integrity and stability of the banking and financial system.

In particular, the framework is supported by a system of obligations held by brokers and intermediaries based on the following:

- Adequate verification of new customers or persons with whom transactions are made (customer due diligence);
- Logging relations and transactions and conserving related documentation;
- Notifying authorities of any suspicious transactions.

The development of financial markets, technological and financial innovations and globalisation has broadened the field of action and the tools available to parties who intend to launder money or fund terrorism. As a result, brokers and intermediaries have to deal with growing legal risks and potential damage to reputation from being involved in illicit transactions.

In order to fulfil the obligations outlined above and to endure effective risk control it is essential to set up adequate safeguards in the organisation. Their structure should be geared towards the specific activities conducted by the Bank as well as its size and operations.

In 2010 Banca Popolare dell'Alto Adige modified its structure to meet the needs of ensuring effective safeguards also on the basis of the recommendations in 2009 made by the external consulting firm mentioned above.

In particular, on 20.05.2010 the Bank's Board of Directors completely reorganised the legal department and, among other things, it separated the anti-money laundering office set up when the first anti-money laundering law was passed (law 197/91).

With the new anti-money laundering law (Legislative Decree no. 231 of 21.11.2007 as amended) and the introduction of compliance rules in the Italian banking system (provisions from the Bank of Italy issued on 09.07.2007) and the internal organisation needs of the Bank made it necessary to undertake a general revision of the issue.

On the basis of operational efficiency and taking into consideration the consultation document the Bank of Italy published on 25.01.2010 entitled "Rules on organisation, procedures and internal oversight to prevent the use of brokers and intermediaries for the purpose of money laundering and funding of terrorism, in accordance with art. 7(2) of Legislative Decree no. 231 of 21.11.2007", in order to ensure the “independence and skilled resources needed to perform the tasks required” the Bank’s Board of Directors resolved to separate the anti-money laundering office from the legal department and to place the office within the compliance staff. This choice was consistent with the general organisation structure of the Bank, with the audit and compliance offices structured into staff areas under corporate management, therefore not under any operational areas. This also made it possible to appoint certain professional figures working in the company.
At the same time it was decided that the person “in charge of anti-money laundering” should possess the “adequate perquisites of independence, authority and professionalism” and fall under the range of executives responsible for oversight and to appoint the compliance staff manager as the executive in charge of anti-money laundering.

Lastly, with regard to the need to regulate the procedure for notifying suspicious transactions – which under art. 42(4) of Legislative Decree 231/2007 is the responsibility of the owner or legal representative or his/her delegate, who should examine/assess the suspicious transaction and forward valid notifications to UIF – the Board of Directors resolved to set up the position of “delegate” and attribute the role of person in charge of anti-money laundering.
These choices were made to comply with the requirement that anti-money laundering operations should be performed in an authoritative and effective manner and minimise any operational and legal risks as well as any risk to reputation.

From an operational standpoint, while the first half of 2010 was mostly dedicated to dealing with several points arising from the Bank of Italy inspection in 2009, - with a monthly report on operations under the project “Revision of Anti-money Laundering Processes”, submitted to our Board of Directors and to the Bank of Italy – after the changes described above, the second half of the year was mainly dedicated to certain actions for data collection (e.g., collection of information on actual owners), training and support provided to the sales network. The objective was to respect the obligations for adequate oversight and to monitor the results of the AUI revision, following the new rules on keeping registers starting from 01.06.2010, with extensive inspections performed on transactions.

An essential element to fight money laundering effectively is extensive and regular staff training that includes, among other things, programmes for recognising activity that is potentially linked to money laundering or funding terrorism.
Special courses were provided for all personnel at all branches and mainly concerned the new rules deriving from the introduction, since 01.06.2010, of new procedures for AUI registration of transactions and parties. This included, first of all, the figure of actual owner, internal innovations on identification documents and tax identification codes, the entire questionnaire process and innovations in dealing with cash, cheques and bearer securities. Furthermore, indicators marking irregularities were studied in depth (Bank of Italy provision of 24.08.2010).
Basic courses for internal services were aimed at all staff with the purpose of increasing knowledge on the issue and raising awareness where there is not usually suspicion with respect to the customer or transaction. The indicators marking irregularities were also illustrated during these courses (Bank of Italy provision of 24.08.2010).
The total number of persons involved in the courses amounted to 756 (with some overlapping between the courses in May and June/July).

In addition, there was also an entire cycle of FAD training, both on general anti-money laundering (following the basic course for about 75 persons), and on adequate verification of customers for about 750 employees.

Tax Audit

Between the end of March and mid June 2010 the inland revenue agency – Provincial Office of Bolzano – performed a tax inspection at Banca Popolare dell'Alto Adige in relation to the 2007 financial year. In July the Revenue Agency issued the inspection report and the Bank decided to adhere.

Rating

In March 2010 the rating agency Moody's confirmed the long-term rating of Banca Popolare dell'Alto Adige at A2 "outlook stabile". In its report the rating agency remarked the satisfactory financial base and capitalisation of the Bank and strong points of the economy where it operates, which withstood the recession better than others. Improvements still need to be made in efficiency and profitability.

In February 2011 the rating agency Standard & Poor's issued for the first time their rating of Banca Popolare dell'Alto Adige and set it at A- "outlook stabile". In particular, the agency provided a positive assessment on its low risk and quality of its loan portfolio. The bank managed to keep non-performing loans at an acceptable level during the crisis.

RESULTS OF OPERATIONS

The results of operations in the 2010 financial year confirm the well-balanced position of aggregate balance sheet items, the solid financial condition and adequate liquidity. There was a downturn from an earnings standpoint. Results from the finance sector and the performance of the subsidiary Voba Invest S.r.l. contributed to the fall in net profit. The performance of retail banking, which is the Bank's core business, grew over 2009. The improvements were recorded in customer contribution margins – including net commissions – and value adjustments to loans. This is significant especially considering the difficult macro-economic context and high competition characterising 2010.

The results of the period are shown in the tables below and reclassified to better represent the trend in company operations.

Funds under management

At the close of the year, the total funds under management for customers came to Euro 10,556 million, with a slight decrease of 0.5% compared to the Euro 10,607 million at the end of December 2009.

Deposits

There is still an intention to save, which is also driven by the feeling of growing uncertainty concerning the personal and international financial situation; however, this is in contrast with the difficulty in withholding resources from consumption. The preference is for low-risk liquid products.

As at 31 December 2010, total deposits from customers (direct and indirect) came to Euro 6,044 million, which was down by 2.0% compared with the previous year.

Direct deposits from customers include items 20 "Amounts due to customers", 30 "Outstanding securities" and 50 "Liabilities carried at fair value". At year-end the aggregate amounted to Euro 4,001 million, which is a 5.2% decrease compared to 2009.

Technical formats for direct deposits	31.12.2010	31.12.2009	% change	% of total
savings and current accounts, certificates of deposit	1,994,928	1,916,546	4.09%	49.86%
ordinary customer bonds	1,820,868	2,020,748	-9.89%	45.51%
other payables	104,045	183,409	-43.27%	2.60%
reverse repurchase agreements on securities	81,529	101,218	-19.45%	2.04%
Total	**4,001,369**	**4,221,920**	**-5.22%**	**100.00%**

The fall in bonds is significant (a drop of Euro 200 million, -9.9%), which is offset by an increase in the on-demand component such as current accounts and demand deposits accounts (a rise of Euro 78.4 million, +4.1%). Traditional products were nearly half of direct deposits, which is a considerable rise over previous financial years.

Under "other payables", liabilities faced with assets transferred and not cancelled following securitisation transactions are highlighted, which had fallen by 43.3% according to the planned progression.

Repurchase agreement transactions fell slightly, although there was little impact on total direct deposits.

Indirect deposits (government securities, Italian and foreign bonds and certificates of deposit, securities, assets under management, etc.) performed well and in 2010 increased by 4.9% from Euro 1,947 to 2,042 million.

Technical formats for indirect deposits	31.12.2010	31.12.2009	% change	% of total
managed securities	1,104,460	1,088,064	1.51%	54.08%
investment funds	788,262	708,027	11.33%	38.60%
life insurance	149,500	150,889	-0.92%	7.32%
Total	**2,042,222**	**1,946,980**	**4.89%**	**100.00%**

It should be pointed out that investment funds rose by 11.3% from Euro 708 to 788 million. Assets under management and insurance products remained stable.
The incidence of assets under management and insurance products on total indirect deposits was 45.9%, against 54.1% of administered deposits.

Loans
Net loans to customers amounted to Euro 4,512.6 million, an increase of 1.7% over 2009. These make up 86% of assets and are carried after adjustments for potential losses, estimated at Euro 107.6 million. The provision pertaining to adjustments is composed of a specific calculated component of Euro 88.5 million and general component of Euro 19.1 million.
Current accounts fell to Euro 121.1 million (-7,5%); whereas loans rose (+284.3 million Euro, +12.3%).
The table below shows the amount at year-end broken down by technical form including impaired assets and transferred assets following securitisation transactions in their original form.

Technical form of loans	31.12.2010	31.12.2009	% change	% of total
current accounts	1,505,329	1,626,465	-7.45%	33.36%
repurchase agreements	345	228	51.13%	0.01%
home loans	2,603,281	2,318,955	12.26%	57.69%
credit cards, personal loans and salary-backed loans	21,713	20,597	5.42%	0.48%
other transactions	381,987	471,845	-19.04%	8.46%
debt securities	0	0		0.00%
Total	**4,512,655**	**4,438,090**	**1.68%**	**100.00%**

The table below shows the breakdown of loans by economic sector:

Loan sectors	31.12.2010	31.12.2009	% change	% of total
Private	1,485,483	1,441,400	3.06%	32.92%
Manufacturing industry	1,494,417	1,013,710	47.42%	33.12%
Sales	393,110	371,235	5.89%	8.71%
Services	1,077,762	1,556,591	-30.76%	23.88%
Public authorities, financial and insurance sector	61,884	55,153	12.20%	1.37%
Total	**4,512,655**	**4,438,090**	**1.68%**	**100.00%**

On 30 June 2010, in accordance with the instructions issued by the Bank of Italy (circular no. 140), the classification criteria for non-financial companies and personal businesses went from RAE classification (Business Segment) to the code ATECO 2007. On the basis of this change a significant number of real-estate companies was reclassified, which is the reason for the considerable shift in volume from the services sector to manufacturing.
The breakdown of loans by borrower type confirms the prevalence of non-financial companies and personal businesses, representing two-thirds of total loans to customers and recording an annual increase of +0.8%. Private loans are second highest with a 32.9% share and a 3.1% increase in volume.

As at 31 December 2010 the loans / direct deposits ratio reached 113% compared to 105% in 2009.

Non-performing loans

In granting loans, as in their management, the Bank has acted with the necessary caution, paying special attention to the assessment of risks.
Loans with anomalous progress (non-performing, problem, restructured and overdue by over 90-180 days) net of the specific value adjustments amounted to Euro 253.9 million, down 18.5% compared to the Euro 311.6 million from the previous year.
The tables below show the values of non-performing loans and a series of related indices.

Non-performing loans	31.12.2010	31.12.2009	% change
A) non-performing loans			
gross amounts	188,843	178,351	5.88%
specific value adjustments	-74,360	-81,899	-9.21%
net amounts	**114,483**	**96,452**	**18.69%**
B) problem loans			
gross amounts	103,968	149,164	-30.30%
specific value adjustments	-7,161	-14,066	-49.09%
net amounts	**96,807**	**135,098**	**-28.34%**
C) restructured loans			
gross amounts	14,937	9,154	63.17%
specific value adjustments	-6,526	-5,142	26.92%
net amounts	**8,411**	**4,012**	**109.64%**
D) loans overdue			
gross amounts	34,684	76,452	-54.63%
specific value adjustments	-486	-428	13.52%
net amounts	**34,198**	**76,024**	**-55.02%**
Impaired Loans Subtotal			
gross amounts	342,432	413,122	-17.11%
specific value adjustments	-88,533	-101,535	-12.81%
net amounts	**253,898**	**311,586**	**-18.51%**
E) performing loans			
gross amounts	4,277,812	4,146,030	3.18%
specific value adjustments	0	0	
Less lump sum value adjustments	-19,055	-19,526	-2.41%
net amounts	**4,258,757**	**4,126,504**	**3.20%**
Total			
gross amounts	4,620,244	4,559,152	1.34%
specific value adjustments	-88,533	-101,535	-12.81%
Less lump sum value adjustments	-19,055	-19,526	-2.41%
Total net amounts	**4,512,655**	**4,438,090**	**1.68%**

Asset quality indices	31.12.2010	31.12.2009
Gross non-performing loans / gross loans	7.41%	9.06%
Net non-performing loans / net loans	5.63%	7.02%
Gross bad loans / gross loans	4.09%	3.91%
Net bad loans / net loans	2.54%	2.17%
Gross problem loans / gross loans	2.25%	3.27%
Net problem loans / net loans	2.15%	3.04%
Degree of bad loan hedging	39.38%	45.92%
Degree of problem loan hedging	6.89%	9.43%
Degree of non-performing loan hedging	25.85%	24.58%

The total share of non-performing loans to customers amounted to 5.63% of total loans to customers (7.9% in 2009). Related value adjustments (Euro 88.5 million) amounted to 25.85% of

their gross value, which amounted to Euro 342.4 million. Bad loans, before value adjustments, amounted to Euro 188.8 million, up 5.88%. These make up 4.09% of total loans (3.91% at 31 December 2009). Net of value adjustments of Euro 74.4 million, they amounted to Euro 114.5 million, which is 2.54% of total loans (2.17% in 2009). Problem loans, before value adjustments, amounted to Euro 104.0 million, down 30.30%. These make up 2.25% of total loans (3.27% at 31 December 2009). Net of value adjustments, they amounted to Euro 96.8 million, considerably down compared to 2009. The provision for bad loans amounted to Euro 19.1 million, which is 0.45% of total loans.
It should be pointed out that gross bad loans also include late payment interest not collected and fully written off. In addition to the valuation of bad loans, performed analytically for each position, the same specific valuation was used for restructured loans and problem loans, including substandard loans.
Specific and lump sum adjustments include the discounting effect of valuation of the time necessary to collect recoverable amounts. If the initial estimate on recovery time is later confirmed, this effect is transferred to the income statement in future financial years thus giving rise to write-backs.
It should be further pointed out that no further adjustments were made for specific segments considered liable to doubtful outcomes, due to a lack of objective and subjective conditions.

In conclusion, the Board of Directors, taking into consideration the valuation made according to the principle of prudence and in consideration of the low concentration of the loans portfolio (see also the Notes to the accounts on significant exposures), feels that the overall potential risk in relation to loans is sufficiently covered.

Risk Management
Concerning risk measurement and management, 2010 was characterised by the dissemination and instilment at all levels of management, the BPAA Risk Management Policy, whose yearly revision was passed by the Board of Directors on the 24 June 2010. This essential document includes in an organic and systematic manner the policies for identifying, measuring, managing and controlling risk and the conditions for assuming such risks.

The new version of the risk assessment document went from an essentially qualitative approach to a primarily quantitative approach by defining – for each type of risk – clear and specific thresholds for determining the significance of each risk held by the Bank. These thresholds now identify the criteria in an objective manner so that the significance of each type of risk is defined as moderate, average or high, thus, the Bank is provided with a clear and objective general outlook of the most significant risks for Banca Popolare dell’Alto Adige.
To complete risk assessment and ensure adequate control and oversight of risks, especially for average and high risks, the system used for monitoring them was tested for each type of risk, also to check whether there are restrictive limitations and any early warning signs that can be used to quickly recognise adverse trends or alarming situations.

Directly related to the main document, in 2010 a series of policies and internal rules were defined or drafted to provide details on how to manage specific risks. In particular:

- **Finance department policy**, with the annex setting forth the limits and powers of the finance department, which regulates risk management with respect to the market, exchange rates and interest rates;
- **Security valuation policy**, which describes the processes and procedures in the valuation of assets/liabilities under the item financial instruments in financial statements;

- **Policy on liquidity**, considering the strategic importance and significance of this risk, this was separated from the finance department policy and structured to define guidelines for management of the Bank's operational and structural liquidity, set strategies and processes for liquidity risk management and for overseeing the net financial position of the institute and prepare an emergency plan;
- with respect to credit risk the document **Criteria for loan valuation for financial statements**, which describes the methods used for the purpose of valuating loans to customers, in consideration of regulatory provisions and accounting policies. In particular, with regard to non-performing loans, which are positions that show objective signs of possible loss in value, guidelines are defined and regulated to assess loss forecasts and criteria for determining to what degree they can be "recovered";
- **Policy for sales risk management**, meaning the risk of losses as a result of unexpected falls in sales and/or sales margins or higher operating costs. These are actually rules for the controlling service;
- **Policy for determining regulatory capital and prudent requirements**, which sets criteria and rules adopted by the Bank with respect to laws in force on the calculation of regulatory capital and capital requirements. Its purpose is to associate risk control to holding adequate capital to deal with risks;
- With regard to operating risks, the **Business Continuity Plan** describes measures for ensuring data recovery and bank operations in the event of an emergency.

In 2010 the role and functions of the Risk Committee were consolidated as well as three second-level committees (Loan Risk Committee, Finance Committee and Operating Risk Committee), in accordance with the Policy. These bodies ensure systematic, thorough and shared treatment of all issues concerning risk management (Risk management, Compliance, Director Responsible for Financial Statements and Audit).

As in the past, in 2010 too the Bank calculated "First Pillar" capital requirements to deal with credit and market risks using the standard approach whilst the basic method was used for operational risks.

Concerning ICAAP (Internal Capital Adequacy Assessment Process), an essential element of the "Second Pillar" under the Basel Accord, tools were provided for all types of risk as well as stress tests, especially for liquidity risk, residual risk and concentration risk.

The yearly statement forwarded to the regulatory authority in April yet again highlighted that, according to the business plan, also for the future the capital is expected to be fully sufficient to deal with any risks undertaken.

Below is an outline – divided by kinds of risk – on the risk position and on the main methodological and organisational aspects adopted by the Bank to identify and calculate risk.

Credit Risk

Credit risk is the total or partial risk of insolvency of a key counterparty and constitutes the Bank's main risk factor, in accordance with its own retail nature.

Therefore, the credit strategy of Banca Popolare dell'Alto Adige, on the one hand, aims to improve the loan allocation process so that it becomes compatible with the underlying risks, and on the other hand to forecast insolvency deterioration phenomena for key customers through increasingly effective and reliable monitoring systems.

In 2010 the early warning and GDC (Credit Management) projects were completed and made fully operational. These systems make it possible to combine a daily system to customer rating and so automatically identify any situations calling for concern. It also made it possible to streamline the internal process for classification and management of problem customers. The latter process was totally overhauled and new regulations were provided with details on the control that needs to be undertaken, the procedure for classification of irregular positions and operational instructions for their administration and management.

In particular, two risk classes were defined for performing customers:

- Positions that are "under observation", which are those that show minor and/or repeated irregularities. Network managers can be in charge of managing and monitoring them;
- Positions that are "high risk", which are positions that continuously and repeatedly show irregularities (credit limit exceeded, instalments in arrears, high percentage of overdue bills, etc.), in the risk centre (reduction in notifying banks, short-term loan consolidation) or in the balance sheet and for which payment is expected within 12 months after qualitative and quantitative processing of the position.

Again in 2010, special monitoring was set up for "single transaction" impaired loans, which are credit lines covered by real guarantee and exceeded or overdue by over 90 days.

In order to improve the quality of credit and minimise risk, the following measures were introduced in the lending process:

- Introduction of a new framework of rules to determine adequate pricing for the risk profile of the customer in question;
- Determine how critical "negative notes" are on the basis of which charges are calculated when exceeding credit limits, cheque books and credit cards are no longer issued and criteria is set for automatic credit line revision and granting credit to foreigners;
- Introduction of new rules for correctly determining groups of customers and associated customers;
- Introduction of a "2nd level freeze" in the credit segment which enables an immediate freeze on credit lines, without the sales network being able to remove it;
- Specific guidelines on the choice of the best technical form of the loan according to time needs, amount of investment and quality of documentation. In particular, the conditions for granting revolving credit were revised.

The measures below were introduced for monitoring and revising credit, in addition to centralising the GDC (credit management) procedure:

- Activation of the CRIF monitor by periodically updating all the positions notified to CRIF with data from the previous month, thereby ensuring that up-to-date CRIF data is always available when credit is revised;
- Introduction of a monitor for loans guaranteed by a fixed-term mortgage;
- Activation of a surveillance process to check expiry of guarantees from guarantee consortia;
- Introduction of advance revision for construction companies with low ratings in order to focus on such companies in a sector that was particularly hit by the crisis.

Adoption of the Credit Risk Mitigation methods to calculate the Bank's regulatory capital in accordance with Basel II led to the accurate definition of forecasting, valuation and period revaluation process for property used as mortgage guarantees in order to fully observe the eligibility criteria of such guarantees.

For that purpose, in 2010 the entire mortgage portfolio was twice put through a geo-referencing revaluation process by the company Nomisma. This was done to be more accurate in assessing the value of property in consideration of the performance of the real-estate market, which was hit hard by the crisis, and ensure that such property is adequate for the loan in question.

During the year, the level of the requirement was constantly monitored and there were no significant changes, even though there was an overall rise in credit exposure.
The quarterly credit risk report drafted for the Bank's Board of Directors plays an important role as a tool to monitor performance of the Bank's credit business and related risks, and to monitor adherence to objectives and compliance with guidelines defined in the Bank's medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loans portfolio behaviour should unexpected events occur. In 2010 the structure and quality of information was revised to make it more accessible and meet the needs of management.

Concentration Risk

Concentration is defined as the risk deriving from credit exposure with regard to counterparties, groups of related counterparties, counterparties in the same economic sector or which exercise the same business activities.
Concentration risk is measured in compliance with the provisions of Bank of Italy Circular no. 263 (Title III – Chapter 1 – Annex B) by the Granularity Adjustment (GA) method and using a special credit data warehouse updated and validated on a monthly basis.
Specific procedures were defined under the ICAAP process in compliance with applicable regulatory provisions in order to calculate geo-sector concentration risk, i.e., risk deriving from counterparties operating in the same sector or geographical area.
An articulated system of limits that controls and addresses the guidelines for the containment of risk levels of concentration in the Bank loan portfolio has also been activated.

Market Risk

Market risk is defined as the risk of loss on owned financial instruments from possible fluctuations in financial market variables (rates, volatility, exchange rates, share prices), considering that each individual financial instrument may be exposed to one or more of these risks. Banca Popolare dell'Alto Adige therefore measures market risk as changes in the value due to market fluctuations.
Banca Popolare dell'Alto Adige adopts a system for measuring and managing market risk based on the Value-at-Risk (VaR) method, which supports a system of risk limits and maximum losses sustainable (risk capital) over various timeframes.

The VaR method calculates the maximum potential loss of a portfolio during a certain timeframe and with a certain probability, under normal market conditions. Value-at-Risk is a single measurement system applicable to all financial instruments, thus allowing a comparison of risk figures calculated in both time and daily profitability terms. For calculating VaR, the Bank uses the historic simulation approach with an exponential weighting applied to the Murex computer platform which, from 2009, forms the integrated computer treasury procedure at Banca Popolare dell'Alto Adige.

In 2010 there were no particular critical situations in the use of daily, weekly and monthly operating limits in terms of VaR.
In addition to analysing VaR and the maximum sustainable losses, market risk management is based, through specific limit systems, on the control of counterparty risk, Country risk, the

sensitivity of the portfolio to market rate risk (basis point value) and credit risk (credit risk sensitivity).

To avoid and prevent exceeding the authorised risk limits, a standardised daily reporting system controls and verifies how close the thresholds are to being reached.
Checking and managing market risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis. These meetings a specific monthly report is submitted by the risk management department.

The risk management department lastly has the role of validating and constantly checking the pricing system for the financial instruments held, with the purpose of maintaining a realistic price profile and which complies with fair value pricing.

Interest Rate Risk
With regard to the banking book, corresponding to the Bank's range of commercial operations in relation to the maturities conversion of all balance sheet, treasury and hedging assets and liabilities, changes in the market rates structure can have a detrimental effect on the interest margin and on equity by constituting a source of risk (interest rate risk).

The management and investment strategies for this banking book are in keeping with optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank’s investment policy is therefore focused on optimising interest rate margins and minimising their volatility (Asset & Liability Management).

During the course of the year 2010, the Bank introduced guidelines and regulations for managing interest rate risk in the banking portfolio in the context of the risk Policy for the Finance department. In particular, two indicators were identified concerning sensitivity to interest margin and current asset value faced with unfavourable changes in the interest rate curve.

In order to monitoring interest rate risk monthly reports are issued by ERMAS, which in 2010 replaced the previous procedure ALMPro. The new system is an improvement in terms of features and methods. In particular, the new procedure uses the full-evaluation calculation system instead of duration linear estimates used by the previous procedure. In addition, the treatment of all on-demand positions was revised and made more realistic.

These improvements led to a certain decrease in sensitivity indicators, though still within the conservative limits set by yearly planning.

Checking and managing interest rate risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis. These meetings a specific monthly report is submitted by the risk management department (ALM report).

Liquidity Risk
Liquidity risk is the risk that the Bank might not be able to meet its own payment commitments at the due date and/or fund increases in its business. It is generally in the form of:
- inability to obtain funds on the market (funding liquidity risk)
- inability to use funds by selling assets on the market (asset liquidity risk)

The importance of liquidity risk, sharpened by the current and continuing crisis in financial markets, formed an element of constant attention in 2010.

The effort and in-depth discussion on this issue, together with the recommendations and instructions from national and international regulatory authorities, led to a full revision of the Bank's management of liquidity. One result is an internal document (Liquidity Policy) approved by top management and disseminated throughout the Bank.

An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between deposits and loans, by balancing asset and liability maturities in order to prevent any future crisis in liquidity.

Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits and reports, also daily. Moreover, the organisation structure is clearly defined for liquidity risk management as well as emergency plans for times of crisis (CFL, Contingency Funding Plan).

One significant innovation in 2010 is activation of liquidity risk calculation with the LaR method (Liquidity at Risk), which estimates – on different confidence levels and timeframes – liquidity needs that cannot be directly influenced by the Bank. Interest liquidity flows in the LaR analysis are daily imbalances not caused by bank decisions, or flows not "dependent" on the will of Banca Popolare dell'Alto Adige and so resulting from customer activity.
This approach is used to check the level of reserves and to determine, under ICAAP, any internal capital needs to deal with liquidity risk.

The liquidity situation is subject to specific weekly treatment by the Internal Finance Committee and monthly by the Finance Committee. The Contingency Funding Plan also provides a system of signs monitored by the Liquidity Monitor and based on the measurement of pre-alarm indicators divided by systematic crisis and specific crisis. The indicators are duly weighted in order to determine the different operational situations resulting from progressive deterioration of the Bank's liquidity position: normal operations (normal), stress situation (emergency), crisis (critical emergency).

In 2010 the Bank did not experience any short-term or long-term situations in liquidity that would cause concern, despite the low confidence between operators and especially in consideration of the country risk given to several countries in the Eurozone, such as Italy.
Indeed, Banca Popolare dell'Alto Adige continued to maintain full confidence in national and international operators.

Operational Risk

Unlike credit and market risks, which the Bank knowingly assumes against remuneration of the risk, operational risk may generate losses, at times also considerable, without any compensation being received by the Bank. Operational risks are naturally intrinsic to processes, the characteristics of products and services provided, and the likelihood of being open to fraudulent or incidental events.

For these reasons the Bank has to study causes that may result in operational losses and systematically detect and measure the events to limit and reduce the risks in question.

In line with Basel Committee definitions, Banca Popolare dell'Alto Adige defines operational risk as "the risk of loss resulting from errors or inadequacies in internal processes, human resources and systems or from external events". This category includes legal risks, but not strategic, reputational and system risks. Therefore, the definition of operational risk includes opportunity risks (deal fall-through), damage to image and risks involving the entire banking system.

Since 2003, Banca Popolare dell'Alto Adige has used a system for detecting and measuring operational losses with the purpose of improving management of potential sources of risk that could undermine company stability.
This system follows a similar initiative applied at national level by the Italian Banking Association (ABI). With the DIPO project (Italian database of operational losses) ABI is attempting to inform banks on how to implement these procedures and create a national databank that would allow banks to obtain more extensive and meaningful statistical data.

The procedure is based on an internal information system that detects all events in the category of operational losses, starting from the minimum threshold of 500 Euro, and forwards them to a central collection point run by the risk management service. These reports are integrated with losses deriving from legal action and customer complaints. Both these event types are systematically recorded on special internal databases.

The collection and systematic analysis of this information last year provided valuable inspiration and suggestions to assess and optimize processes and activities of the Bank. These include revision of the process for making ATM deposits, automated management of instances where credit limits are exceeded when buying securities, integration of foreign procedures in the "irregular events" programme for electronic control of exceeding credit limits, regulating access to sensitive areas at the head offices in Bolzano.

A report on the Bank's operational risk situation is drafted on a quarterly basis by the risk management department for discussion within the Operational Risks Committee. The latter thus has the task of identifying all the potential critical situations, defining the counter-measures that are liable to contain them, and define the operational processes that need adjustment and those that have not yet been defined.

In 2010 a project was also undertaken to analyse and place on dedicated IT media (Metastrom procedure) operating processes focused on risks and aimed at assessing related management.

Other Risks

The Risk Management Policy identifies and defines the following further classes of risk that even if they do not for the time being represent significant risk factors compared with those set out above, are nevertheless periodically subjected to analysis and assessment.

- Sales risk management, meaning the risk of losses as a result of unexpected falls in sales and/or sales margins or higher operating costs. In 2010 this risk was treated systematically by the monthly risk committee;
- Strategic risk, that is, the risk of unexpected losses because of wrong decisions by Banca Popolare dell'Alto Adige management or of financial difficulties in the SEC Servizi centre;
- Reputational risk, that is the risk that the Bank might suffer from lowered image and credibility with its customers faced with wrong behaviour by single employees or groups of staff. In 2010 the Rules for Public Disclosure and Reputational Crisis Plan of Banca Popolare dell'Alto Adige were drafted and approved.

Legal Department

In 2010 the legal department of Banca Popolare dell'Alto Adige was completely restructured. In particular a Service for Bad Debts was set up as well as a legal consultation office. The former is in charge of minimising the current net cost of managing non-performing loans and maximise profitability from loan management. In 2010 collections from bad loans amounted to over 37 million, exceeding the figure in 2009 by 95%. The efficiency of management improved with respect to the average number of cases per operator, which decreased also by effect of a transfer without recourse (see below).
The Legal Consultation Office provides legal support to internal structures and sales network. It manages legal procedures and lawsuits against Banca Popolare dell'Alto Adige Where it is possible to make a reliable assessment of any losses and such loss is considered probable, it allocates funds in the balance sheet in the amount deemed adequate according to the circumstances and risk in question. It also manages relations with legal authorities and law enforcement.

Transfer of a non-performing loans portfolio

In December 2010 Banca Popolare dell'Alto Adige finalised a transaction to transfer a portfolio of 807 impaired loans amounting to Euro 17.3 million. The portfolio was composed of positions with low amounts (an average of about Euro 21,000 gross each) and collection out of court was not successful. The intent of the transaction was to improve efficiency in the management of non-performing loans and reduce the number of positions where collection was improbable. The portfolio was transferred without recourse to the specialised company Guber S.p.A., Brescia, and it generated a loss of Euro 2.1 million, which, without the transaction, would have been reported as a value adjustment for non-performing loans.

Internal Audit Department

Internal audits are performed by the Bank's internal audit department. It performs its duties with specific inspections through a system aimed at assessing the intrinsic riskiness of particular segments. It intervenes whenever there is misalignment between the internal control system, business model and bank governance and in the process and procedure revision phase. The objective is to ensure consistency and coherence in the control model for overseeing risks.

The Institute of Internal Auditors (IIA) is the leading international body for Internal Audit, and is represented in Italy by Associazione Italiana Internal Auditors (AIIA), of which the Bank is a member. In 2009 IIA issued new professional standards for Internal Audit (International Professional Practices Framework - IPPF). Three binding elements are defining internal audits, a code of conduct, and international standards for professionals performing internal audits. IPPF disseminates best practices for internal audits. Compliance with these standards and guidelines is not mandatory, however, it is highly recommended in order to ensure high-quality internal audits.

In light of these new professional standards, and taking into consideration the continuing development of Italian bank laws, especially the provisions issued by the Bank of Italy and Consob (which increasingly express the need for internal audits with regard to new processes and rules), in 2010 the Internal Audit Department of the Bank revised the current internal documents “Rules for Auditing" and "Organisation Model", and incorporated them into the new document "Internal Audit Charter”, approved by the Board of Directors.

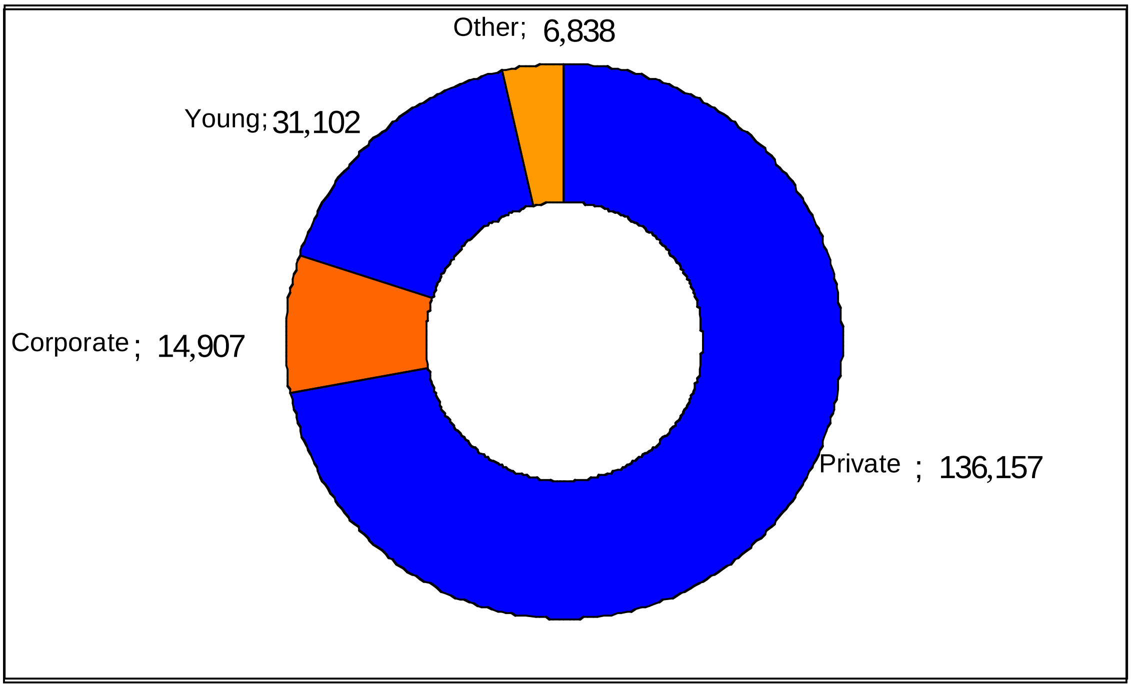
The “Internal Audit Charter” now includes the primary points of professional standards and regulates the following points of internal auditing: purpose, authority, independence, objectiveness, responsibility, services and business, type and method for performing audits, internal control system, risk assessment, code of conduct, as well as references to professional standards. The charter specifies the criteria for independence and sets the hierarchy for the internal auditing office: the Board of Directors is charge of approving the budget and remuneration for the Internal Audit Director, while the department reports to the General Manager.

Overall revision of the “Auditing Model” ended with the production of an “Operations Manual”. The new operations manual for internal audits contains the main procedures for internal auditing. In particular, standard work schemes were updated for inspecting the sales network. Issues reflecting the new guidelines for internal audits for risk and control assessment were revised and extended. In particular, the risk pyramid was inserted, which describes the hierarchy and relations between primary bank risks (operational risk, credit risk, market risk) according to degree of intervention and management of these risks by bank management. Furthermore, the approach for performing audits was updated and standard work schemes were inserted for process audits.

The Internal Audit Charter and Internal Audit Operations Manual are essential pillars for the Bank’s internal audit system.

The Retail Network

Consultancy and customer support are the foundations of Banca Popolare dell’Alto Adige in the retail network. The objective to support every customer group is pursued through consistent segmentation, where each segment has a specific model for consultation, specially trained staff and specialised consultation centres for high-end customers.



Customer support for high-end customers is provided through “Private Banking” (about 10,000 high-end customers) and “Corporate Banking” (about 2,500 high-end businesses), mainly at special consultation centres at bank branches. They provided highly specialised consultancy with the support of special tools.

These brands boast features that go well beyond simple marketing and communication. They represent a real commitment and consulting process provided by experts on a daily basis.
In this context, the rating report for businesses was introduced at the end of 2010: the customer receives from the Bank a written notification containing their rating with specifications on

calculation criteria and real suggestions on how to improve their rating. Since 2011 the report has been in use systematically. Similarly, in 2010 an initiative was started up called "Banca Popolare Volksbank meets entrepreneurship", where the Bank opens up a dialogue with entrepreneurs and business representatives.

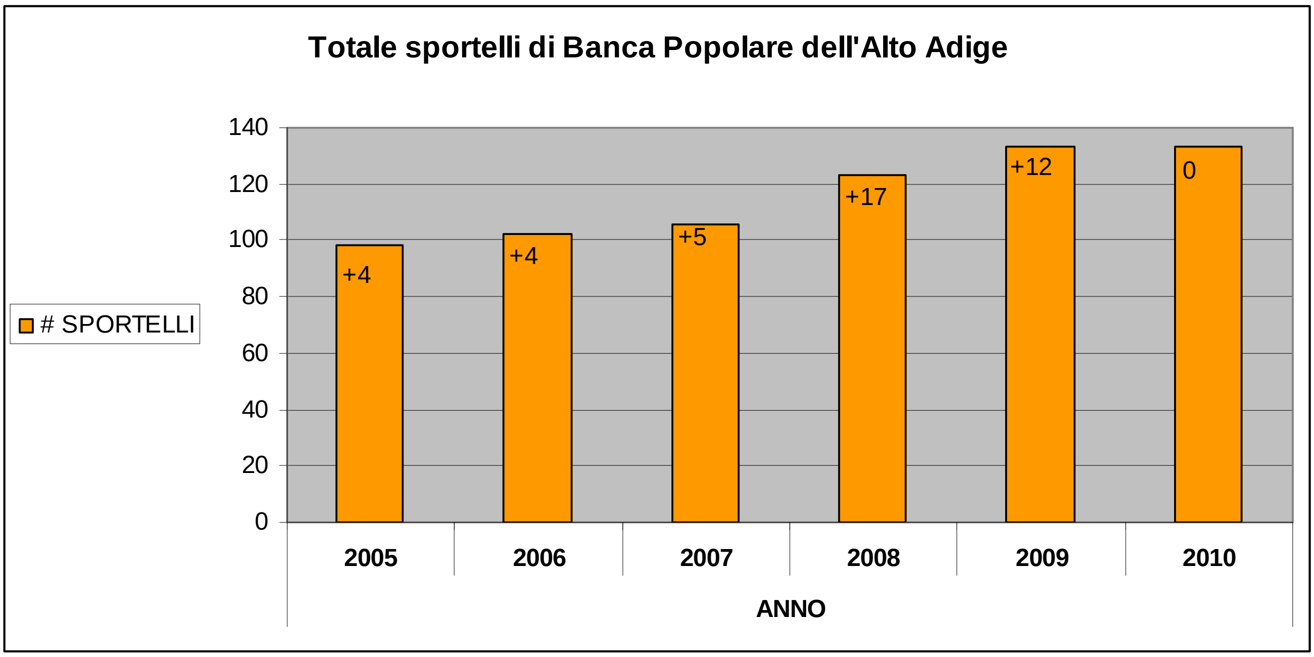
The young customer segment (about 31,000 customers from 0 to 27 years), is an essential resource for retaining future customers. The 11 to 20 segment is under the brandname bank4fun, which is well-rooted in its customer-base thanks to its supporting factors:

- expert consultants at every branch,
- its own website (www.bank4fun.it),
- products to suit youth needs,
- successful events, matching youth trends,
- "Club-Orange", for special deals at participating shops.

In fall 2010 new CRM software (Customer Relationship Management) was successfully installed at all branches. This software covers all stages of work, from planning to timeframes at branches, to customer-oriented consulting, to setting up new agreements and bank products. Thus, it enables consultants to meet customer needs at every step in the customer support process. Furthermore, the software automatically checks that all the essential requirements are met when stipulating a contract, thereby raising the quality of work.

The Branch Network

The Banca Popolare dell'Alto Adige is a regional leader in the north-east of Italy and is well-established in 6 provinces. Bolzano, Trento, Belluno, Treviso, Pordenone and Venice. After 17 grand openings in 2008 and 12 in 2009, the Bank achieved the level of visibility it desired (as per the two-year business plan).



Graph:

Total Branches of Banca Popolare dell'Alto Adige

No. BRANCHES

YEAR

Surveys on the brandname "Banca Popolare Volksbank" conducted during the year show that even in new areas, where one year before the Bank was not present, a high level of visibility has been achieved with both customers and non-customers.
2010 was a year of qualitative progress: new structures created in 2009 (especially branches in Treviso/Pordenone and Venice, private and corporate centres in Venice) integrated well in the local context; consultancy centre staff are recognised as professional partners that can satisfy the needs of the most demanding private and corporate customers.

The preliminary operations for renovating and inserting the Bressanone and Brunico branches at the beginning of 2011 were completed at the end of the last financial year. One goal is to improve bank efficiency and another – especially for high-end customers – is to concentrate expert skills and improve the quality of consulting services even more.

Additional initiatives were started up to improve the quality of branch consulting services, especially for small branches, where it is necessary to focus more on consultancy. A typical example is afternoon business in branches, with more availability in terms of time to dedicate to customer meetings, also in consideration of the lower incidence of branch operations. As a result, afternoons at certain branches were reserved for consultancy provided by appointment only.

Research and Development

Over the years technological and IT innovations have provided the Bank with faster and more efficient tools to meet customer needs. Recently IT innovations have arrived at such a high rate that the Bank has to remain up-to-date through continuing upgrades, which require extensive commitment in terms of financial and human resources.
The imminent changes in laws and products for customers make it increasingly more important to have close interaction between organisation, planning and operations, in order to provide a wide range of products to satisfy needs and stay competitive.

In 2010 there were important structural interventions for products and services with the creation of two new internal structures called product management office and operations office. Their purpose is to pay closer attention to the main objectives of each sector, meet the needs of each customer segment and raise total awareness for staff operating in developing new products in order to enable new services for the future with adequate resources. For this purpose also the resources of each service were divided into single sectors.
A branch backoffice was set up in the structure of the operations office to improve and support the sales network centrally. The strategy to centralise technical-operational activities is to focus branch activities on customer support and consultancy services.

Virtual Channels – Internet Banking

With the expansion of the Internet throughout the territory and so an increase in the number of households and companies that now have access to the web, 2010 was characterised by a further increase in the use of virtual channels. The number of direct b@nking users – the Internet banking system provided by Banca Popolare dell'Alto Adige – and transactions made over virtual systems grew by 15% YoY. The rise in the sms b@nking service was 180%, while the number of transactions made by sms b@nking rose by 300%.
Since its introduction the new version of direct b@nking has been extremely successful. The iPhone application has also been met with great interest (Volksbank App). Another innovation was the launch of quick access to the website www.bancapopolare.it by QR-Code ("quick response code"). The bank's site has been constantly upgraded to meet customer needs and IT innovations, such as complete renovation of the financial markets area, the introduction of a new tool for

selecting and searching for the right product and an option to make appointments directly from the website.

The development of virtual channels places transaction security at the centre of attention as well as protection of user information.

Thus, also in 2010 the issue of security in electronic channels (kiosk, direct b@nking, ATM and cards) played an important role with the implementation of improvements to safeguard product security even more.

Free software check-ups were provided to protect direct b@nking users against phishing.

Loans

The economic crisis especially hit families buying their first home, resulting in difficulty paying loan instalments. Raising awareness of banks as a social party led to the introduction of mechanisms or corrective measure to protect savings.

In 2010 the range of mortgage loans for the first home, “FIRST”, was extended by introducing a maximum rate loan on the market, while the rate on products for non-mortgage loans was brought in line with decree law 141 (see details below in “legal context”).

Basic products

Revision and standardisation of the range of current accounts continued by reorganising certain products, thereby developing the potential of products already on sale and opening up the way to additional developments based on the needs of customers and the market.

Investment products

In an international context where EU directives and intent are increasingly more stringent in order to generate fair competition in Europe based on transparent rules it is also necessary to apply and oversee MiFID rules, adopted by Banca Popolare dell’Alto Adige in 2007.

In order to have an objective survey of correct MiFID application Banca Popolare dell’Alto Adige appointed an audit firm to perform extraordinary analysis. The analysis in question, performed in collaboration with the Internal Auditing and Compliance department, was concluded with a good overall assessment, thereby confirming how the Bank, already in 2007, operates under the framework mentioned above.

Internal documentation and the documentation given to customers, and the processes implemented are perfectly compliant with the law. Also the investment consultancy contract drafted for high-end customers, which will be provided through the consultancy software Objectway Financial Suite, received a positive opinion from the independent auditors.

Insurance companies

Certain products were revamped in order to safeguard customers. Among others, the household policy “Casa Oggi” was extended with a policy for legal protection.

CPI, Credit Protection Insurance, Policy H healthcare insurance and “care4u” accident insurance introduced in 2009 continued to raise a great deal of interest.

In order to provide additional protection to customers, loan and credit policies were re-elaborated and the operational process for all insurance policies was updated under the new ISVAP no. 35 rule on the "framework of information and disclosure obligations for insurance products”. Similarly, all marketing material was brought in line with the new rules mentioned above.

Legal context

In the products sector 2010 was characterised by several legal amendments.

The transparency project carried on in order to inform customers on their contract rights and obligations and ensure the relationship between the customer and bank complies with the law.

Customers were provided with objective information to choose the most significant bank products (instructions for selecting current accounts, instructions for first home loans, guide for change current accounts). The yearly prospectus complied with the latest requirements of the transparency project at the end of 2010. The inspections performed at year-end by the Bank of Italy were positive and confirmed the correct application of regulatory provisions.

Similarly, Law 141 for the extension of consumer safeguards, the range of consumer credit products (all credit contracts stipulated with consumers up to an amount of Euro 75,000) were brought in line with the new law.

The staff compliance department, together with the internal audit department scheduled an inspection in 2010 to check internal oversight of market abuse. For that purpose it was necessary to completely revise the "Rules on the prevention and management of market abuse". This work for updating procedures and processes was conducted by the product management department and, following indications from the staff compliance department in their inspection report, they drafted the new document introduced in March. Following the adoption of the new rules a training programme was planned (by e-learning) for the sales network and internal units to disseminate and raise awareness on its content.
Over the years technological and IT innovations have provided the Bank with faster and more efficient tools to meet customer needs.

Payment systems
With legislative decree no. 11 of 27 January 2010, the European directive on payment services was implemented (Payment Service Directive – PSD). This directive is the legal basis for creating a single European market for payment services. The objective of the directive is to standardise payment services in a single European market. For the customer this does not only mean faster execution of payment orders and collection, but also higher security and transparency. With the introduction of the new directive, payment systems will essentially be standardised throughout the European Union (wire transfers, credit card payments, debit cards, collections).
The provision became effective on 01.03.2010 and provided a transitory period for collection systems until 05.07.2010. Adapting to the regulations involved a considerable effort to review internal accounting procedures, all the contract structure relating to the payment services, and also operating processes. A great deal of attention was paid to informing customers and providing support for business customers to ensure monitored passage to the new logic of Ri.Ba and RID payment systems.

The single market for Euro payments (Single Euro Payments Area) will enable all European citizens to make payments in Euro across the EU with the same ease and security as they can count upon currently in their own national context. From this standpoint in 2010 Banca Popolare dell'Alto Adige introduced the new SEPA Direct Debit product. This new payment tool provides a cost-effective way to make direct debits at European level using standardised methods.

Two service profiles are available:
- Direct Debit Core for private and business debtors;
- Direct Debit B2B for business debtors.

Business virtual channels
In 2010 CoB@ web Internet banking systems for business was revamped. Navigation became easier, the degree of customisation was increased and new features were introduced to make

transaction management easier and more intuitive. The programme was also improved with the addition of “Request Bank Guarantee”, so that business customers can apply for bank guarantees in an easy, fast and direct manner.
Also this year security was at the centre of attention in development. Almost all CoB@ web users were transferred to an authorisation system using cellular phones called “strong authentication”, which guarantees maximum security for Internet transactions.

Partnerships
In order to extend the range of services offered to corporate segments and small and medium sized enterprises (SME), in 2010 the Bank stipulated an agreement with BancaIFIS, a financial company specialised in factoring.
The agreement with BancaIFIS makes factoring more accessible to a larger number of customers. In this way Banca Popolare dell’Alto Adige extended its consultancy services to the specialised business sector.

2010 - Payment systems		Amount
Bank Transfers	Outgoing transfers	2,372,508
	Incoming transfers	2,862,706
	total	**5,235,214**
F24/F23 payments	F24	281,906
	by virtual channel	223,132
	in branch	58,774
	F23	22,150
	total	**304,056**
RID/RIBA/MAV/Freccia payments)	Rid	1,585,000
	Riba	412,809
	by virtual channel	279,219
	in branch	133,590
	Mav	15,338
	Rav	12,331
	Freccia	63,609
	total	**2,089,087**
Customer RID/RIBA/MAV/Freccia receipt		
	Rid	492,437
	hard copy	429
	Riba	502,018
	hard copy	10,980
	Mav	1,198
	total	**995,653**
Cheques	bank	261,803
	certified	36,900
	between branches	47,783
	total	**346,486**

The finance segment
2010 was characterised, especially the first half of the year, by a weak recovery, conditioned by a great deal of uncertainty. The policies of central banks were essentially neutral with interventions limited to circulation and cost of money. In the United States, in February 2010 the Federal Reserve raised the prime rate slightly, which had remained at 0.50% since December 2008, thereby bringing it to 0.75% and Fed Funds maintained a value between zero and 0.25%.

The European Central Bank maintained the discount rate at 1%, the rate in April 2009. Interest rates in the monetary market increased and long-term rates rose, thereby partly reflecting the tension in financial markets due to fears on the sustainability of public finances in certain areas of the Eurozone. The Euribor on three-month deposits rose in 2010 from 0.68% in January to 1.04% in November. Long-term rates fell from 3.66% in January to 2.86% in October, with an increase in November to 3.11%.

Additional difficulties are mainly due to the extension of spreads (risk premium) and countries with high debt such as Ireland, Greece, Portugal and Italy, to name a few.
Under the objectives and investment policies of Banca Popolare dell'Alto Adige, their portfolio recorded a positive trend, with a positive contribution to the overall company result.

	Start of 2010	End of 2010	Change
3-month Euribor	0.70%	1.013%	+31.3 BP
6-month Euribor	0.99%	1.238%	+24.5 BP
2-year IRS	1.82%	1.630%	-19.3 BP
10-year IRS	3.59%	3.317%	-26.8 BP

	Start of 2010	End of 2010	Change	Performance in Euro
Europe				
Eurostoxx 50	3,018	2,793	-7.46%	-7.46%
DAX	6,048	6,914	14.32%	14.32%
CAC 40	4,014	3,805	-5.21%	-5.21%
FTSE MIB	23,545	20,173	-14.32%	-14.32%
FTSE 100	5,500	5,900	7.27%	10.36%
SMI	6,631	6,436	-2.94%	13.52%
USA and Japan				
S&P 500	1133	1,258	11.03%	16.92%
Nikkei	10,655	10,229	-4.00%	15.36%

The Bank's treasury securities totalled Euro 395 million as at year-end 2010, recording a Euro 6.8 million decrease compared to 2009. The Bank's activities in the securities segment were marked by the usual prudence criteria.

Treasury securities portfolio	31.12.2010	31.12.2009	% change	% of total
Financial assets held for trading (HFT)	296,915	261,920	13.36%	75.14%
Available-for-sale financial assets (AFS):	86,678	128,607	-32.60%	21.94%
Financial assets held to maturity (HTM)	11,552	11,416	1.20%	2.92%
Total	**395,145**	**401,943**	**-1.69%**	**100.00%**

It is clear that 75% of the treasury shares are held in the portfolio for trading and all the changes in fair value are accounted for directly in the income statement.
Furthermore it can be observed that the AFS portfolio only contains 1.65% of the Bank's total assets and the HTM portfolio 0.22%. It is clear from the figures that these portfolios are not especially significant for the purpose of understanding the economic-asset situation at the Bank.

Cash management

In 2010, in accordance with the indications for steering the reorganisation plan, considering the maturities of securities issued to institutional investors and in strict accordance with liquidity needs, Banca Popolare dell'Alto Adige placed on the international capital market three bond issues for a total value of Euro 107 million under the EMTN programme. Seven long-term loans were also placed for a total of Euro 38.5 million. The bank has a sufficiently broad base of securities that can be used as guarantee for refinancing transactions with the European Central Bank. These measures made it possible to maintain short-term liquidity at "L1", which is well above the minimum of one.

Banca Popolare dell'Alto Adige collected the liquidity necessary on the interbank market, favoured not only by the A2 Rating A2 with "outlook stabile", but also by the excellent reputation the Bank has built up over the years. As regards treasury activity at the end of the year, the net liquidity position on the interbank market showed a debit balance amounting to Euro 488 million (up by Euro 223 million).

Interbank relationships	31.12.2010	31.12.2009	Absolute change	% Change
Due from banks	50,430	51,629	-1,199	-2.3%
Due to banks	538,738	274,484	264,254	96.3%
Net banking position	**-488,308**	**-222,855**	**-265,453**	**119.1%**

Equity investments

Banca Popolare dell'Alto Adige does not belong to a banking group.

Equity investments in subsidiaries and companies subject to significant influence

The bank's equity investments (item 100) are described in a single section considering the low number of subsidiaries and associated companies. At the end of 2009, following the incorporation of Berger S.p.A. into the Bank and the dissolution of the banking group Banca Popolare dell'Alto Adige, there remain only two companies in the Bank's portfolio of equity investments: Voba Invest S.r.l. (value reported in the balance sheet Euro 3.533 million), fully controlled, and the healthcare facility Villa S.Anna (value reported in the balance sheet Euro 516 thousand), an associated company in which the Bank holds 35% of the share capital.

In April 2010 the Bank incorporated the company Voba Invest Equity S.p.A., fully controlled by the Bank, to make equity investments. Its value was reported as Euro 1 million. Subsequently (in June 2010) its value was increased by Euro 2.5 million following a share capital increase, while the share capital and value of Voba Invest S.r.l. was reduced to Euro 2.033 million (the share capital increase for Voba Invest Equity S.p.A. was necessary to enable the latter to issue guarantees in compliance with sector regulatory provisions and the reduction in the share capital of Voba Invest S.r.l. was deemed necessary with respect to the Bank's business plans). In December 2010, following the decision by the Bank's Board of Directors to make equity investments in-house, also in light of recent changes in regulatory provisions on financial companies, the share in Voba Invest Equity S.p.A. was put under liquidation resulting in a loss of about Euro 53,000. With regard to the share in Voba Invest, at the time the subsidiary's financial statements at 31 December 2010 were being prepared, the directors of the company recognised reductions in value of certain assets in relation to the outcome of several real-estate development projects, which resulted in a reported loss of Euro 4.4 million and a fall in the shareholders' equity of Voba Invest S.r.l. (Euro -1.6 million). As a result the Bank performed an impairment test on the valuation of equity investments which, with regard to Voba Invest, led to a total write-down of the shares (Euro 2.033 million) and resulted in allocating an additional Euro 1.6 million to the provision for risks and charges considering the negative shareholders' equity of the subsidiary. The bank's Board of Directors shall soon assess whether to recapitalise Voba Invest S.r.l.
At 31 December 2010, therefore, only the equity investment in Casa di cura Villa S. Anna remains, for a value of Euro 516 thousand.

It should be mentioned that pursuant to art. 2497-*bis* of the Italian Civil Code, amended by Legislative Decree 6/2003, Banca Popolare dell'Alto Adige exercises management and coordination over companies in the Group and does not draft the consolidated financial statements under the "*Framework for Preparation and Presentation of Financial Statements*" (the "*Framework*"), the necessary reference for the application of international accounting standards.
This Framework does not contain standards on issues concerning valuation or information but sets forth basic concepts (rules) for the preparation and presentation of year-end and consolidated financial statements.
In particular, after defining the purpose and rules of the financial statements, it defines and prescribes general policies for recording and valuating their contents i.e. assets, liabilities and net shareholders' equity, costs and revenues.
Paragraphs 26 to 30 outline the main concepts of significance and relevance of the information.
In particular, paragraph 26 states that "*information is qualitatively significant when it is able to influence the financial decisions of users and help them assess past, present or future events or confirm or correct assessments made in the past*".
Paragraph 29 establishes that "*the importance of the information is influenced by its nature and its relevance*". Lastly, paragraph 30 specifies relevance as "*providing a threshold or limit rather than representing a primary qualitative characteristic that the information requires in order to be deemed useful*".

Paragraph 8 of IAS 8 should also be noted, *"Accounting standards, changes in estimates and errors"*, approved by the Commission on 03 November 2008 and published in the EU Official Gazette on 29 November 2008, which prescribes that it is not necessary to apply accounting policies dictated by IAS/IFRS when the effect of their application is not significant.

Based on the above, the importance of the subsidiary Voba Invest on the Bank's shareholders' equity is deemed minimum. With a view to absolute prudence in investment valuation, charging all the losses to the Bank's income statement, consolidation would have no added value. The directors of the Bank are planning to dispose of the subsidiary's assets or incorporate them into the Bank.

Based on the above provisions and assessments the Bank decided not to draft consolidated financial statements and excluded their subsidiaries considered irrelevant or of little significance in order to improve the information that would result from their consolidation.

Information on infragroup relations and relations with related companies

Accounting and working relationships maintained with subsidiary companies with significant shareholdings, that is, with related companies, proceeded altogether smoothly and correctly under market conditions. More detailed information can be found in the Notes under part H.

The workforce

The essential task of the Bank - in brief – is to develop the financial resources provided by customers, transform them into loans and oversee related risks. The most important resource held by the Bank is its workforce.

The workers of Banca Popolare dell'Alto Adige have the duty to maintain day-to-day relations with customers and partners, make sure the Bank is competitive and manage the entire organisation structure. Their work is what determines company results. They are what make the difference by personifying the unique points and ethical values that make up the tradition of Banca Popolare dell'Alto Adige, as a regional bank.

The human resources department effectively pursued the objective to ensure that the resources required by the branches throughout the territory are made available and that workers are replaced when necessary by means of internal rotation and new recruits.

To achieve this objective special training courses are organised for each professional profile. Furthermore, yearly interviews are held to assess performance, understand training needs and assess the potential of each worker. Development is considered professional, cultural and personal, with the objective to lead workers to cover roles with increasingly more responsibility.

At year-end there were 1,107 (units) workers, down slightly from 2009 (1,117). Given the reduced working hours of workers with a part-time contract (148), absences due to maternity leave (37) and unpaid leave (23), the average number of workers in 2010 was 997 FTE (full-time equivalent), also down from 2009 (1,019).

The negative employment rate, compared to 31/12/2009, is the result of a decrease of 9 (-0.8) due to 56 new recruits against 65 staff leaving.

68.1% – 684.36 FTE – pertained to the network (2009 = 712.56 FTE), the remaining 31.9% – 320.59 FTE – pertained to internal services (2009 = 306.82 FTE). With respect to previous years, the higher amount of internal services workers is the result of centralising administrative operations, which had previously been performed in the branches, as well as the result of new members of internal control bodies (Internal Auditing, Compliance etc.).

The percentage of female workers rose from 41.5% to 42.5%.

The average age of employees is 40. The average age of female workers is lower (37).

Banca Popolare dell'Alto Adige is one of the most important employers in the province of Bolzano. A secure, well-paid and high-quality job is provided to 1,107 workers. Following the model of regional bank, branch workers are usually hired locally.

The table below shows the breakdown of internal services and branch workers by province.

Breakdown by province:

Province	No.	%
Bolzano (internal services and branches)	787	71.1%
Trento	91	8.2%
Belluno	87	7.9%
Venice	73	6.6%
Treviso	57	5.1%
Pordenone	12	1.1%

Staff training and development

Appropriately trained and qualified staff, which can face up to the everyday challenges with the required professionalism, represent an important key to the lasting success of a company in the services sector. The banking sector is subject to rapid development and has seen its own complexity increase; the level of information of clients is constantly increasing and for this reason there is an expectation of professional consultancy and assistance. The increasing regulations of the banking sector at European and national level imposes extra requirements and demands.

The staff provide investment services and work indirect contact with customers. Their training was planned by the Compliance office, which provided a positive opinion on educational material for private banking and financial subjects. This aspect is important for future planning of training courses.

The Bank deals with the increase in such demands by means of adopting measures for continuing professional development at work. With this background, in 2010 the Bank invested in training, in which 99% of staff took part, for a total of more than 79,182 hours in total, down slightly from the previous year (81,810 hours).

Internal training includes the following:

- Courses involving different companies: specific training sessions for highly specialised personnel.
- Internal courses: training conducted by experts from the Bank and outsourced companies.
- Mandatory training: programmes for all workers to cover any issue needed, including efficient and up-to-date monitoring tools, accessible by participants and each worker, thereby enabling them to check their training status (current and planned) at any time.
- Multi-level training: participant multipliers for first-level training are determined for projects or important innovations. With this approach the multipliers determine subsequent participants, who then transfer knowledge systematically until all workers are covered.
- Language courses: considering the fact that the Bank is formed by two different cultures, in 2010 over 10,000 hours of language training was provided to learn German (for Italian speakers) and to learn Italian (for workers from Alto Adige). The initiative was particularly welcomed in the areas where only Italian is spoken (Belluno, Trento, Treviso/Pordenone, Venice). Many workers made a successful effort to learn the basics of the German language. English courses were also organised for internal services experts, who often work in international contexts due to their particular role.
- Individual coaching: Coaching is mainly provided by the managers of private and corporate services. It is an opportunity to transfer knowledge directly on the field by internal services experts and at the same time it enables an exchange of actual experiences, which is

essential for directly understanding the needs of network managers to offer consulting that is ever more professional and focused on customer needs. Issues learned through coaching are processed by training experts and then used to develop targeted sales programmes.

- Case study analysis (e.g., study of loan cases that became non-performing): these allow a retrospective and real study of cause-effect and factors to identify in advance in order to prevent bad loans, complaints, etc.
- On-the-job training: training held at the workplace with the support of internal tutors and managers.
- Branch-based training – with monthly closing of the entire network on one afternoon to cover mandatory training needs and to organise training by geographical area.
- FAD training (e-learning) – also in 2010 the process to introduce this form of innovative training was accelerated. The e-learning modules developed by the company specialised in the sector ensure high quality in terms of issues dealt with and technical standards in producing multimedia content (animation, audio, interactive tests, webfictions, etc.). The contents correspond perfectly to the needs of the Bank and this is also ensured by the direct involvement of internal services experts when developing the material and when producing content. Thus, the training programmes are highly customised to suit the specific context of Banca Popolare dell'Alto Adige. In particular, there was a focus on integrated training approaches ("blended learning" models), which alongside the advantages offered by training sessions that require physical attendance, there are self-study units (e-learning), which enable a practical and high-quality learning experience. Items of theoretical training, that is significant preparatory knowledge, can be passed on as a preliminary by means of self-study; in this way the time in the classroom can be spent handling actual examples and finding practical solutions. This increases the quality of training significantly. The great advantage of the e-learning units is the ability to make flexible use of one's workstation, in particular as regards time management. In addition travel time to reach the course location is saved.

A further important component in the concept of training is the widespread and targeted use of admission and final tests. Through admission tests, one can ensure that the training participants have the required basic knowledge to achieve the desired success in learning. Groups formed by participants with the same level ensure a positive effect on learning and a reciprocal exchange of experience. The circle is closed with the final test. For all training and development initiatives the related learning goals are first defined and then achieved through a programme that defines contents and implementation. Following course completion, the employee is asked to provide structured feedback. This feedback is studied and assessed on a continuing basis.

Training provided in 2010 concerned the following:

- Banking technical content
- Procedures, organisation and processes
- Mandatory training: ISVAP certification (for insurance consultancy), anti-money laundering rules, safety at the workplace (Law 81) and robbery prevention
- Issues related to manager development
- Language and communication courses
- Seminars for personality training
- Health and well-being

Training management: All workers are provided with a special integrated database. The courses are organised by professional profile, which acts as an essential guideline for selecting training programmes. The database is also integrated with an application for registering in training sessions, details on scheduled courses, past courses attended, test results, feedback monitoring and implementation plans.

Worker interview: At Banca Popolare dell'Alto Adige the yearly interview with the worker is not only an essential tool for managing human resources, but it is also the main part of the assessment process for determining training needs. It enables direct worker assessment and also provides an internal tool (forum) for superiors and human resource managers.

Change in accounting standard for employee bonuses

In the past variable bonuses for employees of Banca Popolare dell'Alto Adige were reported by cash criteria since during the preparation of financial statements the bonuses were not yet paid, as prescribed by IAS 19 paragraph 17.

In 2008 and 2009 the Bank of Italy issued instructions and rules on remuneration policies for credit institutions and in application of these rules on 29 June 2009 the general shareholders' meeting for Banca Popolare dell'Alto Adige approved the document on remuneration policies, subsequently amended by the shareholders' meeting held on 20 April 2010. This document defined the rules for determining the variable components of payment for general managers and executives with strategic responsibilities. The "policy for estimating variable bonuses" was then drafted to regulate estimates for employee bonuses in the following year, in compliance with IAS 19 §17 and §20.

Changes in application of accounting standards are regulated by IAS 8, according to which changes in accounting policies are allowed "when it improves representation of an event or transaction in the financial statements" (IAS 8 §14) and such change *will apply retroactively (IAS 8 §19) if it is decided by the entity on a voluntary basis.*

In this case it is a voluntary change that enables better representation of bonus costs with a relatively insignificant impact on the financial statements. As a result, the figures were reclassified with respect to 2009 and 2010 with an impact on the income statement affecting personnel costs, income tax and net profit for 2009 and on the items "prepaid tax assets", "current tax liabilities", "other liabilities" and "shareholders' equity".

The impact of reclassification is a reduction in 2009 net profit of 2.37% (Euro 0.62 million) and a decrease in shareholders' equity of 0.91% (Euro 4.63 million). The overall effect on the financial statements is irrelevant. Reclassification for financial years prior to 2009 is not considered necessary since only the effect already visible in 2009 is impacted and there is no value added.

The Bank's shareholders

The company shareholders as at 31/12/2010 was made up of 16,263 Partners and 3,595 Shareholders (holders of Banca Popolare dell'Alto Adige shares with no voting rights at Shareholders' Meetings); these figures were determined by the entry of 2,517 new Partners and by the departure of 448 Partners and by the entry of 537 new Shareholders and the departure of 1,144 Shareholders.

The 2010 shareholders' meeting established the issue price of securities as Euro 18.25 and the dividend per share for 2010 as Euro 0.30.

As seen in the section "Change in accounting standard for employee bonuses" starting in 2010 variables are reported on an accrual basis. This led to the reclassification of 2009 financial statements and a negative effect on shareholders' equity. As a result of the reclassification earnings per share fell from 5.71% to 4.70% (2.67% for the increase in the book value and 2.03% for the dividend at average book value).

In 2010, 1,632,979 shares were traded by Partners/Shareholders using the trading platform, which corresponds to 4.71% of the shares in circulation as at 31 December 2010.

As at 31 December 2010 no own shares were held in the Bank's portfolio.

The demonstration of the "open door" principle approved by art. 2528 of the Civil Code is summarised in the table below showing the movements in Shareholders:

Year	Incoming Partners	Outgoing Partners	Incoming Shareholders	Outgoing Shareholders
2007	47	350	540	98
2008	111	381	1,173	83
2009	271	434	783	244
2010	2,517	448	537	1,144

Annual report on the mutual nature of the cooperative under art. 2545 of the Civil Code
In compliance with art. 2545 of the Civil Code, below is a description of the policies for shareholder management in pursuit of the mutual purpose.

The purpose of a cooperative bank like Banca Popolare dell'Alto Adige is much more than simply trying to maximise profits, and not only to fulfil legal obligations. Being a cooperative bank means implementing policies and interventions that relate with the territory and local social context on a day-to-day basis. The partners of Banca Popolare dell'Alto Adige know that the concern and actions are not only for their well-being, but also to spur growth throughout the local social-economic context. The bank is aware of the fact that the benefits from responsible management not only effect the present, but they have positive repercussions also on future generations.
In this sense Banca Popolare dell'Alto Adige aims at being a point of reference for all social players in a system of targeted interventions bringing benefits to the entire community throughout the region. This is the Bank's mission.
In 2010 the figure of partner continued to play a central role for the Bank. The link of trust with partners and mutual orientation are reflected by the fact that 90% of partners are also customers of the Bank. Costs related to admitting a partner were reduced by 50% in order to expand the partner base.

In addition to the purely economic benefits, partners are at the centre of an intense and transparent communication process starting from the direct relationship with branches and moving on to the magazine News4you (partner newsletter), and the financial statements, and ending in the annual general assembly: an event that year after year sees more participants and gives attendees memorable moments such as the lottery and reception.
The annual assemblies for bank partners represent the main occasion for contact and interaction between the Bank's customer base and top management. The regulations for popular banks is denoted by the rigorous application of the principle of per capita voting and by the stringent legal regulations on the limits on equity shareholdings, so as not to allow preconstituted or controlling majorities to be formed. Lastly, this provides a guarantee that the capital component does not take on excessive importance over the social component.
A territory in expansion does not only mean higher economic-financial figures for the company, but it also means a commitment to presence and activities in favour of the local communities. The bank intends to acquire new partners to share this view also in the new areas.
Several interventions for social, cultural, sporting, solidarity and environmental support initiatives show the awareness and attention to the needs of the territory. These are mostly targeted interventions, which through the local commitment of branches contribute to the life of hundreds of groups and associations spread throughout the territory, animating intense activity, which is important for individual local realities.

Legitimacy, loyalty, ethics and transparency are at the base of Banca Popolare dell'Alto Adige. This is not only a legal obligation but above all a group of values the Bank sincerely believes in as a foundation for every objective. The mutual nature of the Bank is the value added for a bank that believes in it.

Internal organization

ICT (Information & Communication Technology)

The tasks and challenges in IT and organisation of a bank do not only consist in defining company processes to improve efficiency through continuing optimization. It is essential to pay special attention to the prevention and limitation of risks related to new technologies. The daily challenges of a modern bank should be dealt with using state-of-the-art tools and systems.

Developments in IT should provide support for a modern concept of consultancy. The use of new generation technologies for communications opens up new opportunities for both customers and the Bank. Adopting new solutions entails, however, inevitable exposure to certain risks.

Thus, the use of sophisticated security systems is essential to prevent any abuse and to guarantee as much as possible that our customers are provided with a secure system. Banca Popolare dell’Alto Adige provides its customers with the highest level of security when using electronic and virtual channels. For this reason it introduced a new authorization system on different channels, especially for businesses and private customers.

Together with the ICT outsourcer, SEC Servizi in Padua, in 2010 the Bank worked extensively to develop a new platform for integrated consultancy, based on a predefined operational process.

Banca Popolare dell’Alto Adige was one of the first to implement the system developed by SEC Servizi. This platform is now the basis for all of the major information systems to be implemented in the future. Applications are already under development for loans, both for carrying out procedures for new loans and for monitoring loan positions already in place. Investments were also made to develop a new consultancy platform for finance. It will soon be available for branches so that they will be able to provide assistance based on the needs of each customer. The new implementations enable sales network resources to have a guided use of the system, which also takes into consideration the operations needed to fulfil legal rules.

In the current context it is extremely challenging to ensure fulfilment of all the legal rules that are constantly being imposed on the Bank. Therefore, much of the investments in IT will be to adhere to the legal rules and provisions issued by the state and regulatory authorities. Complying with the timeframes imposed for adherence requires a considerable investment of resources. Together with the ICT outsourcer, SEC Servizi, Banca Popolare dell’Alto Adige is constantly committed to meet these needs without overlooking the customer so that it will always be able to provide the consulting and support required to meet customer needs.

Analysis of corporate processes

Organisation analysis of corporate processes is essential to achieve the strategic objectives of the Bank. All the process analyses respect 3 fundamental guidelines that are in antithesis to each other:

1. Customer orientation and process simplification (streamlining and automation)
2. Operational efficiency (cost reduction)
3. Adequate monitoring of risks, while assessing whether to set up points to check that expectations have been met (internal control system).

In 2010 Banca Popolare dell'Alto Adige continued analysing sales network processes and began to select the processes of certain internal offices to gain more insight. In 2010, specifically:

- Processes were completed for primary products and branch services;
- The activities and responsibilities of the players involved from time to time were documented;
- Improvements were made to obtain more clarity, consistent information and responsibility of each activity between branches and central services and between central offices;
- Improvements were made in the documentation and information for internal training: Operational improvements were made. The number of circulars was reduced from about 800 in 2009 to about 500 by the end of 2010, thereby improving information flow;
- Many of the processes analysed were made more efficient (e.g., centralization).

In support of the growing importance and central role of process management, in 2010 new process management software was introduced to improve support for analysis, optimization and representation of processes according to the 3 guidelines mentioned above. The new software will also act as the base for the definition and documentation of the entire system of internal checks, as well as performing the checks themselves. In 2010 the data related to process analysis was transferred from the old system to the new software.

Further more, during the year several analyses were concluded with a total of 400 new process documents, mainly for streamlining branch operations.

Additionally, in 2010 a new web-based system was made operational, "Web Branch – Sales Platform", the new platform based on a logic for customer consultancy and not – like other systems – on a logic for transactions. This new sales platform makes up the structural basis for providing and monitoring customer consultancy for the entire range of bank products. All branch systems in the future will be integrated with the new "sales platform", thereby standardising branch operations and thus increasing the focus on the customer.

The corporate culture of the Bank continues to raise awareness on the value of process orientation as an essential factor to achieve the strategic goals of Banca Popolare dell'Alto Adige in the long term.

Atypical and/or unusual transactions

Atypical and/or unusual transactions are defined as all significant transactions that by the nature of the counterparties, the scope of the transaction, the terms of defining transfer prices and the times of occurrence (closeness to the year-end cut-off date) may give rise to doubts about the accuracy/completeness of the information in the financial statements, about conflicts of interest, about safeguards of the corporate asset base and about the protection of minority shareholder interests. As required by Consob Communication no. 6064293 dated 28 July 2006, it is declared that in the course of the year 2010 there were no transactions of an atypical and/or unusual nature so as to affect the income, asset and cash flow position of Banca Popolare dell’Alto Adige.

Subsequent events after year-end

Since the end of the 2010 financial year, no significant events have occurred that could deteriorate the financial position or returns in the current year.

Foreseeable Results of Operations

After a beginning with week signs of improvement, in the international economy 2010 was marked by a slowdown in production in advanced countries and economies.
Also 2011 is expected to be characterised by a difficult and uncertain economic recovery due to certain problems that are still in place.
According to recent estimates by the International Monetary Fund, economic growth forecasts on Italy show a 1% increase in GNP, which is in line with recent assessments made by the Bank of Italy.
The moderate recovery in the economy and the signs from the European Central Bank entail a likely increase in prime rates, with mainly positive effects on interest margins. The continuing uncertainty of interbank markets is reflected on the cost of money, which remains higher than recent years.
It is expected that in 2011 the loan adjustments will be lower than allocations made in 2009, since in 2010 the amounts reported were much lower following a slowdown in the flow of new non-performing positions.
Total net commissions should show a considerable increase compared to the figure for 2010, also because volumes are expected to rise.
Like 2010, the rise in administrative expenses should be moderate, in line with the consolidation phase started up after extending the sales network, which ended in 2009.

In 2011 a slight increase in profit is expected.

Income statement

The 2010 income statement of Banca Popolare dell'Alto Adige closed with a new profit of Euro 17.4 million, down from the previous year.

The schedule below taken from the income statement outlines the most significant values of the current financial statements compared to the values of the previous year.

Income statement	31.12.2010	31.12.2009	Absolute change	% Change
Interest Margin	**106,444**	**127,779**	**-21,335**	**-16.7%**
Net commissions	67,111	46,328	20,783	44.9%
Dividends and similar income	324	4,378	-4,054	-92.6%
Net income from trading activities	-2,689	6,176	-8,864	
Profit (Loss) from the sale or repurchase of available-for-sale assets or financial liabilities	-625	-816	191	
Net income from financial assets and liabilities carried at fair value	231	81	150	185.4%
Banking margin	**170,797**	**183,926**	**-13,129**	**-7.1%**
Net value adjustments/write-backs for loan impairment or other financial transactions	-8,568	-23,992	15,424	-64.3%
Net income from financial management	**162,229**	**159,935**	**2,295**	**1.4%**
Administrative costs:	-123,238	-118,088	-5,149	4.4%
- of which personnel costs	-74,972	-72,518	-2,454	3.4%
- of which other administrative costs	-48,266	-45,571	-2,695	5.9%
Net allocations to provisions for risks and charges	-2,046	-309	-1,736	561.6%
Net value adjustments on tangible and intangible assets	-12,076	-13,359	1,283	-9.6%
Other operating costs/income	9,081	12,547	-3,466	-27.6%
Operating costs	**-128,278**	**-119,209**	**-9,069**	**7.6%**
Profit (Loss) on equity investments	-2,086	0	-2,086	
Profit (Loss) from disposal of investments	-38	19	-57	
Current operating profit (losses) before tax	**31,827**	**40,744**	**-8,917**	**-21.9%**
Year-end income taxes for current operations	-14,388	-15,162	774	-5.1%
Profit (loss) for the year	**17,439**	**25,582**	**-8,143**	**-31.8%**

Interest Margin

There was a 16.7% decrease in net interest (Euro 106.4 million). The fall is due to the elimination of the maximum overdraft fee and the contraction of rate differentials characterising the 2010 financial year.

The total interest income was Euro 147.8 million, compared to 196.3 million in 2009, down by -24.7%. Payable interest amounted to Euro 41.3 million, against 68.5 the previous year, which is a decrease of 39.7%. The historically low level of interest rates, with its related problems, is especially expressed in the absolute reduction in interest income by an additional Euro 49 million and payable interest by an additional Euro 27 million. In 2009, the fall in interest income amounted to Euro 96 million and the fall in payable interest amounted to Euro 94 million.

Net commissions

Net commissions, which amounted to Euro 67.1 million, rose by 44.9%, mainly due to the new fee on credit line services, which replaced the maximum overdraft fee and other credit line fees as well as an increase in assets under management and brokerage.

Brokerage margin

The brokerage margin was down from the previous year (-7.1%) and reached a total of euro 170.8 million, with a contribution from the interest margin equal to 69.5%, compared to 69.5% in the previous year.

Dividends for Euro 0.3 million were down considerable from 2009, where the same item benefited from payment of about Euro 3.9 million from shares in mutual funds.

The result from work in the finance sector was moderate (items 80, 100 and 110) which in 2010 resulted in a loss of Euro 3.1 million compared to the profit of Euro 5.4 million from the previous year.

Trading resulted in a net loss of Euro -2.7 million and was penalised by the credit spread of government bonds following the debt crises of several countries in the Eurozone.

The loss of Euro 2.1 million from loan disposals is due to the sale of a portfolio containing about 800 non-performing positions, which without this transaction would have been reported almost completely as value adjustments for non-performing loans.

Net income from financial management

Net profit from financial management rose by 1.4% and went from Euro 159.9 to 162.2 million as a result of the considerable reduction in impairment losses.

Net value adjustments of Euro 8.6 million (-64.3% compared to the Euro 24.0 million of 2009), reflect the effects of write-downs on irregular loans, but also include provisions for inherent risks on performing loans and the effects of cash flow discounting of expected recoveries, as prescribed by IAS/IFRS. The significant improvement of the item reflects improvements in the stability of loans granted and the effectiveness of the measures and prudence of the Bank to withstand the effects of the economic crisis. Losses from loan disposals are also to be considered when comparing the item to last year.

Operating costs

Operating costs recorded an overall increase of 7.6%, from Euro 111.9 million to Euro 128.3 million, in line with forecast figures.

More specifically, administrative costs increased by 4.4%.

It should be pointed out that there was a change in the accounting policy for variable bonuses paid to employees, as mentioned herein, and the instructions issued by the Bank of Italy were respected (letter dated 18.02.2011). As a result the 2009 figure was reclassified to ensure the data can be compared.

Personnel costs increased by 3.4% and other administrative costs by 5.9%. The ratio between administrative costs and brokerage margin worsened and rose from 64.2% in 2009 to 72.2% in 2010.

With regard to other operating cost components, net allocations to provisions for risks and charges increased significantly by Euro 1.7 million, of which Euro 1.6 million refers to the outcome of valuation of the subsidiary Voba Invest S.r.l., as described herein.

Tangible asset depreciation and intangible asset amortisation decreased by 9.6%.

The positive balance between other operating income and costs was Euro 9.1 million, a fall of Euro 3.5 million compared to 2009. Considering the extraordinary event of an insurance indemnity amounting to Euro 3 million in 2009 the decrease is less significant.

The cost-income ratio according to Moody’s definition rose from 66.9% in 2009 to 75.2% for the year 2010.

Losses on equity investments

This item is divided into a loss of Euro 53 thousand from liquidation of the subsidiary Voba Invest Equity S.p.A. and the full write-down of shares in Voba Invest S.r.l. for Euro 2,033 thousand. For further details reference should be made to the section on equity investments herein.

Profit for the period

As at 31/12/2010 the income statement closed with profits before tax of Euro 31.8 million, recording a significant decrease compared to the Euro 40.7 million of the previous year (-21.9%).
Income tax in the income statement amounts to Euro 14.4 million.
2010 therefore closed with net profits of Euro 17.4 million, considerably down from the Euro 25.6 million profit of 2009.

Each item in the income statement is described in detail in the Notes to the accounts.

Comprehensive income

In the 1st update to the financial statement rules the Bank of Italy introduced, in application of the new IAS 1, a new statement of overall yield that presents, in addition to the profits for the year, all the items that contribute to company performance.
Unrealised income and charges, which were previously noted in the reserves under net assets, must now be presented under the Income Statement and may not be included in the statement of changes in net assets.
Unrealised income and charges are attributable to:
• profits and losses resulting from revaluations (IAS 16, 38);
• actuarial profits and losses (IAS 19);
• profits and losses on currency transactions (IAS 21);
• profits and losses on equity investments and AFS securities (IAS 39);
• profit shares and actual losses on cash flow hedging (IAS39).

The bank's comprehensive income, in addition to year-end profit, includes the item "available-for-sale financial assets".

Comprehensive income	31.12.2010	31.12.2009	Absolute change	% Change
Profit (loss) for the year	**17,439**	**25,582**	**-8,143**	**-31.8%**
Financial assets available for sale	830	2,791	-1,961	-70.3%
Comprehensive income	**18,269**	**28,373**	**-10,104**	**-35.6%**

As shown by the table, the Bank's performance in terms of comprehensive income dropped by 35.6% over the previous year.

Shareholders' equity and profit for the year 2010

At year-end 2010, Banca Popolare dell'Alto Adige's equity increased from Euro 530.3 million to Euro 537.9 million (+1.4%), including profit for the year. The increased amount is mainly due to setting aside 2009 undistributed profits.

The table below provides a breakdown of shareholders' equity:

Shareholders' equity	31.12.2010	31.12.2009	Absolute change	% Change
Valuation reserves	72,932	72,101	831	1.2%
Reserves	232,426	217,491	14,935	6.9%
Share premium reserve	145,773	145,773	0	0.0%
Capital	69,341	69,341	0	0.0%
Profit (loss) for the year	17,439	25,582	-8,143	-31.8%
Shareholders' equity	**537,911**	**530,288**	**7,623**	**1.4%**

The valuation reserves include:

- reserves resulting from a revaluation of property market values, performed on first-time application of IAS/IFRS,
- valuation reserves regarding available-for-sale financial assets, and
- valuation reserves established in application of specific laws.

The increase recorded derives from the fair value change in financial assets available for sale recognised in the period.

Other reserves include:

- existing profit reserves (legal, extraordinary, purchase of treasury shares reserves, etc.), and
- positive and negative reserves related to the effects of transition to IAS/IFRS not recognised under other reserve items mentioned above.

The Euro 14.9 million increase in reserves derives from the allocation of 2009 profits, as resolved by the ordinary shareholders' meeting of 20/04/2010 and provisions allocated to the legal reserve and extraordinary reserve.

At the same Shareholders' Meeting the issue of dividends in the total amount of Euro 10.4 million was passed.

The high quality of shareholders' equity enables the Bank to be better prepared to deal with risks. Indeed, shareholders' equity is devoid of any hybrid and subordinated instruments and is made up above all of common equity (ordinary stock and profit reserves) in the amount of Euro 447.5 million (83.2% of shareholders' equity).

Regulatory capital

Regulatory capital totalled Euro 482.3 million and consists of:

Regulatory capital	31.12.2010	31.12.2009	Absolute change	% Change
tier 1 capital	407,687	404,280	3,407	0.8%
tier 2 capital	74,575	74,469	106	0.1%
deductible elements	0	0	0	
regulatory capital	**482,262**	**478,749**	**3,513**	**0.7%**

For prudential regulatory purposes, the tier 1 capital ratio (tier 1 capital/risk assets) was 9.97%, whereas the total capital ratio (regulatory capital/total risk assets) was 11.80%. Furthermore it can be observed that the Tier 1 ratio and the Core Tier 1 ratio (Tier 1 capital without innovative instruments/risk assets) coincide.

	31.12.2010	31.12.2009	Absolute change
Core tier 1 ratio	9.97%	9.33%	64 BP
Tier 1 ratio	9.97%	9.33%	64 BP
Total capital ratio	11.80%	11.05%	75 BP

The extent of the regulatory capital shows an absolutely significant balance and is considered adequate for Bank exposure, confirming a financial solidity stronger than that required by the Regulatory Authority.

Net profit for 2010 amounted to Euro 17,439,357 million, a decrease of -31.8% from 2009.

The Board of Directors proposed that the ordinary shareholders' meeting, called to approve the 2010 financial statements in accordance with law, should allocate net profit as follows:

Proposal for the allocation of net profit	Euro	% of total
- to the legal reserve	1,800,000	10.32%
- to the extraordinary reserve	5,238,261	30.04%
- as a dividend to shareholders of Euro 0.30 per share	10,401,096	59.64%
net profit	**17,439,357**	**100.00%**

The allocation of net profit, after approval by the ordinary shareholders' meeting called to approve the 2010 financial statements in accordance with law, will have the following effects on equity:
the equity reserves will increase to Euro 7,038,261 bringing shareholders' equity to Euro 527,509,957 (+1.5% over 2009).

Shareholders’ equity	31.12.2010	31.12.2009	Absolute change	% Change
Shareholders’ equity	537,911	530,288	7,623	1.4%
dividends	-10,401	-10,401	0	0.0%
Shareholders' equity without dividend	**527,510**	**519,887**	**7,623**	**1.5%**

Bolzano, 25 March 2011

THE BOARD OF DIRECTORS

Report by Board of Statutory Auditors to the Shareholders' Meeting pursuant to Art. 2429(2) of the Italian Civil Code

Dear Shareholders,
The financial statements as at 31/12/2010 of Banca Popolare dell'Alto Adige closed with the following accounting results:

Balance sheet in Euro	31.12.2010
Assets	5,247,725,066
Liabilities	4,709,814,013
Shareholders' equity and net profit	537,911,053

Income statement in Euro	31.12.2010
Revenues and profit	298,011,025
Expenses and loss	280,571,668
Net profit for the year	17,439,357

Summary and outcome of oversight

During the period which ended 31/12/2010 the board of statutory auditors performed the audits required by law, guidelines issued by the Bank of Italy and according to the standards and recommendations of the National Board of Accountants and Bookkeepers.
This report of the board of statutory auditors for the general shareholders' meeting of Banca Popolare dell'Alto Adige was drafted in compliance with the Civil Code - namely art. 2429 – and art. 153(1) of legislative decree 58 of 24.02.1998.

With regard to the activities performed in 2010, we specifically inform the shareholders' meeting that:

- • We have supervised compliance with the Law, regulations contained in the Articles of Association and respect for the principles of proper management;
- • The Directors and Head Office provided us with general information on operations and on transactions of significant equity, economic and financial impact;
- In 2010 the Board of Statutory Auditors attended all meetings of the Board of Directors and of the Executive committee and has conducted periodic audits to ascertain the consistency of operations.
- • Resolutions carried and implemented by the Board of Directors complied with Law and the Articles of association and did not appear to be clearly imprudent, reckless or risky, or involve any potential conflict of interest with resolutions passed by the Shareholders' Meeting or are such that they compromise the integrity of the Bank's equity;
- The organisation model is now operational, under legislative decree 231/2001. Information was exchanged with the Supervisory Board on a regular basis.
- • We oversaw the organisational structure, the system of internal controls and the accounting-administration system at the Bank, and the reliability of the latter when representing correctly the facts of management;

- • We received the opinion of the independent auditors, BDO S.p.A., under art. 2409-*septies* of the Civil Code and in no case have any divergences of opinion or assessment emerged, nor any data or significant information which should be mentioned in this report;
- We oversaw compliance with the obligation, under art. 2391 of the Civil Code, to adopt rules ensuring transparency and substantive and procedural correctness of transactions with related parties, rules laid down in the regulations approved by the Board of Directors on 25.11.2010 and there were no non-conformities. The issue of transactions with related parties is described in section "H" of the Notes to the Accounts under the *Directors' Report*.
- We should point out that no reports in relation to art. 2408 Civil Code were submitted by partners nor were there any major complaints made by others.

Proposals related to the financial statements, their approval and matters concerning the board of statutory auditors

With regard to the financial statements as at 31/12/2010, we report the following:

- Pursuant to art. 2409-bis of the Civil Code, legal audits of Banca Popolare dell'Alto Adige accounts were performed by independent auditors BDO S.p.A. as per their appointment by the general shareholders' meeting;
- On 05 April 2011 the above-mentioned independent auditors issued their full report, without reporting any irregularities or recommendations;
- We verified the layout of the financial statements, their general compliance with regulations in terms of format and structure, also taking into consideration IAS/IFRS international accounting standards and the provisions issued by the Bank of Italy in Circular no. 262 of 22 December 2005 on the "technical format" of the financial statements;
- The notes to the accounts contain detailed information on the items of the Balance Sheet – concerning goodwill and other assets that underwent impairment tests also with the support of the independent auditors – and the Income statement, together with other information required to provide a true and fair representation of the Bank's equity, economic and financial position;
- The Directors' Report provides an adequate description of operations during the financial year and explains the Bank's situation and results of operations in an accurate, well-balanced and thorough manner. The report was drafted on basis of legal rules and there is nothing that needs reporting on this point;
- None of the directors had recourse to the exceptions provided by art. 2423(4) of the Civil Code;
- The manager responsible for preparing the financial statements, Wolfgang Plattner, issued a statement, under art. 154-bis of Legislative Decree 58/98, to certify the year-end financial statements;
- • We confirm that net profit for the 2010 financial year amounted to Euro 17,439,357, and we invite the Shareholders' Meeting to resolve upon its allocation as proposed by the Board of Directors.

The Board of Statutory Auditors confirms that the 2010 financial statements were prepared correctly and provide a true representation of the financial position and year-end result of Banca Popolare dell'Alto Adige.

Therefore the Board of Statutory Auditors hereby expresses its opinion in favour of approval of the Bank's financial statements as submitted and agrees with the proposal to allocate the year-end profit as proposed by the Board of Directors.

Bolzano, 05 April 2011

THE BOARD OF STATUTORY AUDITORS

Heinz Peter Hager - Chairman
Georg Hesse – Standing Auditor
Joachim Knoll – Standing Auditor

Balance Sheet

BALANCE SHEET			
Assets		**31.12.2010**	**31.12.2009**
10.	Cash and cash equivalents:	**41,452,190**	**35,354,852**
20.	Financial assets held for trading	**296,914,840**	**261,919,858**
40.	Financial assets available for sale	**86,678,042**	**128,607,050**
50.	Financial assets held to maturity	**11,552,496**	**11,415,985**
60.	Due from banks	**50,429,906**	**51,629,321**
70.	Loans to customers	**4,512,655,378**	**4,438,089,947**
100.	Equity investments	**516,457**	**4,048,961**
110.	Tangible assets	**118,451,859**	**122,205,811**
120.	Intangible assets	**45,123,046**	**46,371,681**
	of which:		
	- goodwill	40,392,116	40,392,116
130.	Tax assets	**40,830,464**	**41,596,565**
	a) current	28,002,150	25,915,127
	b) prepaid	12,828,314	15,681,438
150.	Other assets	**43,120,388**	**50,650,618**
Total assets		**5,247,725,066**	**5,191,890,649**

(amounts in Euro)

BALANCE SHEET				
Liabilities and shareholders' equity	**31.12.2010**		**31.12.2009**	
10. Due to banks		**538,737,887**		**274,484,035**
20. Due to customers		**2,177,872,183**		**2,197,386,890**
30. Outstanding securities		**1,218,166,177**		**1,533,082,049**
40. Financial liabilities held for trading:		**15,310,171**		**17,295,252**
50. Financial liabilities designed at fair value		**605,330,440**		**491,451,095**
80. Tax liabilities		**34,885,128**		**42,250,510**
a) current	11,216,938		19,651,883	
b) deferred	23,668,190		22,598,627	
100. Other liabilities		**99,026,334**		**83,768,984**
110. Staff severance indemnities		**17,868,008**		**19,986,629**
120. Provisions for risks and charges:		**2,617,685**		**1,897,200**
a) pensions and similar commitments	0		0	
b) other provisions	2,617,685		1,897,200	
130. Valuation reserves		**72,932,013**		**72,101,724**
160. Reserves		**232,426,318**		**217,490,843**
170. Share premium reserve		**145,772,727**		**145,772,727**
180. Capital		**69,340,638**		**69,340,638**
200. Profit (loss) for the year		**17,439,357**		**25,582,073**
Total liabilities and shareholders' equity		**5,247,725,066**		**5,191,890,649**

(amounts in Euro)

INCOME STATEMENT AS AT 31/12/2010					
INCOME STATEMENT			**31.12.2010**		**31.12.2009**
10.	Interest income and similar income		147,773,256		196,292,971
20.	Interest expense and similar charges		(41,329,729)		(68,514,237)
30.	**Interest Margin**		**106,443,527**		**127,778,734**
40.	Commission income		71,638,343		51,116,990
50.	Commission expense		(4,527,064)		(4,788,496)
60.	**Net commissions**		**67,111,279**		**46,328,494**
70.	Dividends and similar income		324,363		4,378,409
80.	Net income from trading activities		(2,688,546)		6,175,815
100.	Profit (Loss) from sale or repurchase of:		(625,157)		(816,186)
	a) receivables	(2,058,416)		-	
	b) financial assets available for sale	910,706		(1,205,795)	
	c) financial assets held to maturity	13,774		27,614	
	d) financial liabilities	508,779		361,995	
110.	Net profit (loss) from financial assets and liabilities carried at fair value		231,464		81,111
120.	**Banking margin**		**170,796,930**		**183,926,377**
130.	Net value adjustments/write-backs for impairment of:		(8,567,502)		(23,991,865)
	a) receivables	(8,225,384)		(23,832,693)	
	b) financial assets available for sale	(83,785)		-	
	c) financial assets held to maturity	-		-	
	d) other financial transactions	(258,333)		(159,172)	
140.	**Net income from financial management**		**162,229,428**		**159,934,512**
150.	Administrative costs:		(123,237,533)		(118,088,230)
	a) personnel costs	(74,971,859)		(72,517,503)	
	b) other administrative expenses	(48,265,674)		(45,570,727)	
160.	Net allocations to provisions for risks and charges		(2,045,544)		(309,200)
170.	Net adjustments/write-backs on tangible assets		(10,248,848)		(11,329,337)
180.	Net adjustments/write-backs on intangible assets		(1,826,821)		(2,029,268)
190.	Other operating costs/income		9,080,932		12,546,853
200.	**Operating costs**		**(128,277,814)**		**(119,209,182)**
210.	Profit (Loss) on equity investments		(2,085,889)		-
240.	Profit (Loss) from disposal of investments		(38,463)		18,918
250.	**Current operating profit (losses) before tax**		**31,827,262**		**40,744,248**
260.	Year-end income taxes for current operations		(14,387,905)		(15,162,175)
270.	**Net current operating profit (loss) after tax**		**17,439,357**		**25,582,073**
290.	**Profit (loss) for the year**		**17,439,357**		**25,582,073**

(amounts in Euro)

Statement of Comprehensive Income

Statement of comprehensive income items		31.12.2010	31.12.2009
10.	**Profit (loss) for the year**	**17,439,357**	**25,582,073**
	Other net of tax income items		
20.	Financial assets available for sale	830,289	2,790,752
110.	**Total other net of tax income items**	**830,289**	**2,790,752**
120.	**Comprehensive income (Item 10+110)**	**18,269,646**	**28,372,825**

(amounts in Euro)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31/12/2010

	Balance as at 31/12/2009	Adjustment to opening balances	Balance as at 01/01/2010	**Allocation of net result from previous year**		**Changes during the year**									**Shareholders' equity as at 31/12/2010**
						Changes to reserves	Shareholders' equity transactions						Overall yield for the year 2010	
				Reserves	Dividends and other allocations		Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock Options		
Capital:	69,340,638	-	69,340,638	-	-	-	-	-	-	-	-	-	-	**69,340,638**
a) ordinary shares	69,340,638	-	69,340,638	-	-	-	-	-	-	-	-	-	-	**69,340,638**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium reserve	145,772,727	-	145,772,727	-	-	-	-	-	-	-	-	-	-	**145,772,727**
Reserves:	217,490,843	(245,502)	217,245,341	15,180,977	-	-	-	-	-	-	-	-	-	**232,426,318**
a) profit reserve	217,490,843	(245,502)	217,245,341	15,180,977	-	-	-	-	-	-	-	-	-	**232,426,318**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:	72,101,724	-	72,101,724	-	-	-	-	-	-	-	-	-	830,289	**72,932,013**
Equity instruments	-	-	-	-	-		-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit/(Loss) for the year	25,582,073	-	25,582,073	(15,180,977)	(10,401,096)	-	-	-	-	-	-	-	17,439,357	**17,439,357**
Shareholders' equity	**530,288,005**	**(245,502)**	**530,042,503**	**-**	**(10,401,096)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,269,646**	**537,911,053**

(amounts in Euro)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31/12/2009

	Balance as at 31/12/2008	Adjustment to opening balances	Balance as at 01/01/2009	**Allocation of net result from previous year**		**Changes during the year**								**Shareholders' equity as at 31/12/2009**
							Shareholders' equity transactions						Overall yield for the year 2009	
				Reserves	Dividends and other allocations	Changes to reserves	Issue of new shares	Purchase of treasury shares	Distribution of extraordinary dividends	Change in equity instruments	Derivatives on treasury shares	Stock Options		
Capital:	69,340,638	-	69,340,638	-	-	-	-	-	-	-	-	-	-	**69,340,638**
a) ordinary shares	69,340,638	-	69,340,638	-	-	-	-	-	-	-	-	-	-	**69,340,638**
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Share premium reserve	145,772,727	-	145,772,727	-	-	-	-	-	-	-	-	-	-	**145,772,727**
Reserves:	202,008,947	(4,634,045)	197,374,902	20,101,437	-	14,504	-	-	-	-	-	-	-	**217,490,843**
a) profit reserve	202,008,947	(4,634,045)	197,374,902	20,101,437	-	14,504	-	-	-	-	-	-	-	**217,490,843**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:	69,310,972	-	69,310,972	-	-	-	-	-	-	-	-	-	2,790,752	**72,101,724**
Equity instruments	-	-	-	-	-		-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Profit/(Loss) for the year	32,236,049	-	32,236,049	(20,101,437)	(12,134,612)	-	-	-	-	-	-	-	25,582,073	**25,582,073**
Shareholders' equity	**518,669,333**	**(4,634,045)**	**514,035,288**	**-**	**(12,134,612)**	**14,504**	**-**	**-**	**-**	**-**	**-**	**-**	**28,372,825**	**530,288,005**

(amounts in Euro)

CASH FLOW STATEMENT (DIRECT METHOD) AS AT 31/12/2010

A.	OPERATING ACTIVITIES	31.12.2010	31.12.2009
1.	**Operations**	**45,252,385**	**57,708,585**
	- interest income (+)	147,773,256	196,292,971
	- interest expense (-)	(41,329,729)	(68,514,237)
	- Dividends and similar income (+)	242,085	4,304,909
	- Net commissions (+/-)	67,111,279	46,328,494
	- Personnel costs (-)	(74,971,859)	(72,517,503)
	- Other costs (-)	(49,858,916)	(47,901,124)
	- Other revenues (+)	10,674,174	14,877,250
	- Taxes and duties (-)	(14,387,905)	(15,162,175)
	- costs/revenues from groups of assets being disposed of, net of tax effect (+/-)	-	-
2.	**Cash flows generated by/used for financial assets**	**(51,051,507)**	**(51,045,875)**
	Financial assets held for trading	(16,150,074)	62,058,872
	- financial assets carried at fair value	-	-
	Financial assets available for sale	42,755,929	18,247,836
	- Loans to customers	(86,894,775)	(119,645,319)
	- Loans to banks: on demand	533,009	(3,207,992)
	- Loans to banks: other	666,406	2,691,841
	- Other assets	8,037,998	(11,191,113)
3.	**Cash flows generated/absorbed by financial liabilities**	**26,697,672**	**8,084,964**
	- Due to banks: on demand	(6,068,601)	(51,817,879)
	- Due to banks: other payables	270,322,453	27,576,115
	- Due to customers	(19,514,707)	165,318,390
	- Outstanding securities	(314,407,093)	(119,828,543)
	Financial liabilities held for trading:	(23,518,536)	(17,628,161)
	Financial liabilities carried at fair value	114,110,809	4,518,801
	- Other liabilities	5,773,347	(53,759)
	Net cash flow generated/absorbed by operating activities	**20,898,550**	**14,747,674**
B.	**INVESTMENT ACTIVITIES**		
1.	**Cash flows generated by:**	**3,915,249**	**1,415,518**
	- Sale of equity investments	3,946,616	992,356
	- Dividends from equity investments	82,278	73,500
	- Sale/redemption of financial assets held to maturity	(122,737)	314,058
	- Disposal of tangible assets	9,092	35,604
	- Disposal of intangible assets	-	-
	- Disposal of business branches	-	-
2.	**Cash flows absorbed by:**	**(9,620,637)**	**(8,212,922)**
	- Purchase of equity investments	(2,500,000)	-
	- Purchase of financial assets held to maturity	-	-
	- Purchase of tangible assets	(6,542,451)	(7,426,663)
	- Purchase of intangible assets	(578,186)	(786,259)
	- Purchase of business branches	-	-
	Net cash flow generated/absorbed by investment activities	**(5,705,388)**	**(6,797,404)**
C.	**FUNDING ACTIVITIES**		
	- Issue/Purchase of treasury shares	-	-
	- Issue/Purchase of equity instruments	1,305,272	(1,772,189)
	- Dividend distribution and other purposes	(10,401,096)	(12,134,612)
	Net cash flow generated/absorbed by funding activities	**(9,095,824)**	**(13,906,801)**
	NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR	**6,097,338**	**(5,956,531)**

KEY: **(+) generated; (-) absorbed**

RECONCILIATION

Balance sheet items	31.12.2010	31.12.2009
Cash and cash equivalents at the beginning of the year	**35,354,852**	**41,311,383**
Total cash generated/absorbed during the year	**6,097,338**	**(5,956,531)**
Cash and cash equivalents: impact of exchange differences	**-**	**-**
Cash and cash equivalents at year end	**41,452,190**	**35,354,852**

(amounts in Euro)

NOTES TO THE ACCOUNTS

Form and content of the financial statements as at 31 December 2010

PART A – Accounting policies

PART B – Information on the Balance Sheet

PART C – Information on the Income Statement

PART D – Comprehensive Income

PART E – Information on risks and related hedging policies

PART F – Information on capital

Part G – Business combinations concerning companies or business branches

PART H – Transactions with related parties

PART I – Share-based payment arrangements

PART D – Segment reporting

PART A

ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

Section 1 – Statement of compliance with international accounting standards

The financial statements, comprising the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes to the accounts, together with the directors' report, were prepared in accordance with IAS/IFRS, as introduced into Italian legislation by recent European Community Regulations, from EC Regulation no. 1606/02 et seq.

Section 2 – Basis of preparation

The financial statements have been prepared under the going-concern assumption and reference to the following general principles for the preparation of financial statements:
- principle of a true and fair view;
- accrual principle;
- principle of consistency of accounting;
- principle of prohibition to offset items, unless expressly permitted;
- principle of the prevalence of substance over form;
- principle of prudence.

In preparing the financial statements for the year the approaches and rules for compilation set out in Bank of Italy Circular no. 262 of 22 December 2005 as amended. In addition the extra information deemed useful to complete the picture given by the financial statement data, not yet required by regulations, have been added.

Pursuant to the provisions of art. 5(2) of Legislative Decree no. 38 of 28 February 2005, the financial statements use the Euro as the currency for accounting purposes. Specifically, in line with Bank of Italy instructions, the financial statements are expressed in Euro, in whole units, except for the notes to the accounts which are expressed in thousands of Euro.

Going concern.
The financial statements have been prepared under the going-concern assumption, and thus assets, liabilities and off-balance sheet transactions have been valued accordingly.
On this matter is it stated that the administration and control bodies set up all the actions intended for a careful valuation of company prospects, and that this assumption has been largely followed and thus no detailed analyses are required to support this assumption beyond the information that emerges from the contents of the financial statements and the directors' report.
Considering the structure of deposits – mainly based upon customer current accounts and bonds placed with customers – and loans – with a counterpart mainly made up of retail customers and small and medium sized companies on which the Bank carries out constant monitoring – and upon the prevalence in investment portfolios of State securities and bond instruments from prime issuers, there are no critical items that could endanger the asset solidity and the yield balance of the Bank, which are the prerequisites for corporate continuity.

Section 3 – Subsequent events

Since year-end, no facts or events have occurred that would call for adjustment to the results of the financial statements as at 31 December 2010.
For general comments on subsequent events, reference should be made to the Report by

the Board of Directors.

Section 4 – Other aspects

Risks and uncertainties related to use of estimates

The application of certain accounting standards entails using estimates and assumptions that have an effect on the values of assets and liabilities reported in the financial statements and on the information provided on potential assets and liabilities. The assumptions underlying the estimates take into consideration all available information at the date the financial statements are prepared as well as any conditions deemed reasonable in light of past experience and the particular moment of financial markets.
Valuation processes requiring more estimates and assumptions to determine what values to carry in financial statements involve:
- quantification of losses in value of financial assets, especially for loans and financial assets available for sale;
- determining the fair value of financial assets and liabilities when it is not readily available on capital markets. In this case, the choice of valuation model or parameters to use in the valuation might not be assessable on the market;
- quantification of provisions for risks and charges petitum uncertainty, contingency timeframes and actuarial assumptions used;
- estimates in recovery of deferred tax liabilities.

The valuation processes listed above are provided only to enable the reader to have a clearer understanding of the main areas of uncertainty and it is not meant in any way to suggest that alternative assumptions might be appropriate.
Moreover, the valuations in the financial statements were made based on the going concern assumption, since there are no risks that might jeopardise the ordinary operations of the Bank.

Changes to IAS/IFRS

In 2010, with regard to the year-end financial statements of Banca Popolare dell'Alto Adige there were no significant changes to the accounting standards approved by IASB and adopted by the European Commission.

Reclassification of balances from previous years

Pursuant to IAS 8, the reader should be informed that the accounting policy on treatment of variable bonuses for employees under IAS 19 was changed, as described in the Directors' Report.
The following changes were made for comparison with figures at 31 December 2009 in order to include the changes in policy:

Assets		
item 130b) Tax assets	prepaid tax allocation on 2009 bonus provision	2,177

Liabilities		
item 80a) Current tax liabilities	tax effect	-246
item 100 Other liabilities	bonus provision including related expenses 2009 to be paid in 2010	7,676
item 160 Reserves	adjustment position	-4,634
item 200 Profit (loss) for the year	effect on the income statement	-620

Income statement		
item 150a) Personnel costs	bonus difference including related expenses 2009 and 2008 cash	-866
item 260 Income taxes	tax effect	246

Pursuant to IAS 8, it should be pointed out that in accordance with the clarification made by the Bank of Italy in their letter dated 16.02.2011, the following reclassification was made in the income statement at 31 December 2009:
transfer of item 150b) Other administrative costs to item 150a) Personnel costs for the amount of Euro 2.527 million for expense reimbursement, meal allowance and training costs.

Independent Audit

The financial statements for the year were audited by the independent auditors, BDO S.p.A., appointed by the shareholders' meeting of 20 April 2010 under assignment for the three-year period 2010-2012.

A.2 – INFORMATION ON THE MAIN ITEMS OF THE FINANCIAL STATEMENTS

This section illustrates the accounting policies adopted for the preparation of the financial statements as at 31 December 2010.

ASSETS

1. Financial assets held for trading

Classification criteria

This item comprises financial instruments held for trading in the short term, specifically:

- listed and unlisted debt securities held for trading;
- listed equity instruments held for trading;
- unlisted equity instruments, held for trading only when their fair value can be reliably determined;
- structured securities;
- UCITS (mutual investment funds and Sicav) held for trading;
- asset-backed debt securities issued by SPVs as part of own or third party securitisations and held for trading;
- derivatives with a positive fair value as at the balance sheet date;
- outright foreign futures.

The designation of a financial instrument to the category of financial assets held for trading is made on initial recognition. Further reclassification is not permitted except in rare circumstances (IAS 39.50B).

Recognition criteria

The initial recognition of financial assets held for trading occurs: on the settlement date for debt securities, equity instruments and UCI shares; on the date of subscription for derivative contracts.
Financial assets held for trading are initially recognised at their fair value, any costs and/or income resulting from the transaction that are directly attributable to said instrument are not recognised. For contracts drawn up on market conditions, the fair value of the instrument corresponds to the cost incurred for the purchase.

Valuation criteria and measurement of income components

Following initial recognition, financial assets held for trading are recorded at fair value, and any changes are recorded in the income statement. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is therefore determined as follows:

- in the case of listed financial instruments traded in an “active regulated market”, the relevant unadjusted “market price” (fair value hierarchy level 1);

- in the case of financial instruments not traded on an “active regulated market”, the value resulting from the use of prices recorded on over the counter markets or alternatively referring to the internal valuation models generally used in finance using only parameters that are observable on the market (fair value hierarchy level 2).
- in the case of financial instruments not traded on an “active market”, which are hardly liquid and often structured the value resulting from the use of valuation models widely used in financial practise using in part parameters that cannot be observed on the market also (fair value hierarchy level 3).

Financial assets whose fair value cannot be reliably determined on the basis of the above

are carried at cost.
Gains and losses on disposal or redemption and unrealised gains or losses resulting from changes in the fair value of financial assets held for trading are recognised to the income statement under “net income from trading activities” together with the result of valuations of assets and liabilities in foreign currency.

Derecognition criteria

Financial assets held for trading are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets.

2. Financial assets available for sale

Classification criteria

This item includes non-derivative financial assets that are not classified in the above category, or in the categories of financial assets valued at fair value, financial assets held to maturity or “receivables”. It is therefore a residual category which encompasses:

- unlisted equity instruments, unless originally allocated to the AFS portfolio;
- securities allocated as a guarantee deposit/collateral for transactions agreed with third parties and not classified elsewhere in the statements;
- UCITS units (mutual investment funds and SICAVs), unless originally allocated to the AFS portfolio;
- asset-backed debt securities issued by SPVs as part of own or third party securitisations, unless originally allocated to the AFS portfolio;
- equity investments that cannot be categorised as controlling, associated or joint-venture;
- other debt securities and capital that cannot be classified under any of the above-mentioned categories.

Recognition criteria

Available-for-sale financial assets are initially recognised on the settlement date. Initial recognition of the financial assets classified in this category is made at their fair value, increased by any transaction costs that are directly attributable to the financial instrument.

Valuation criteria and measurement of income components

Following initial recognition, available-for-sale financial assets are recorded at their fair value. Any gains or losses resulting from a change in fair value are recorded in a specific reserve under equity until said financial asset is derecognised or sold or an impairment loss is recorded.
If an available-for-sale financial asset suffers an impairment loss, the cumulative unrealised loss previously recorded under shareholders’ equity, is reversed from shareholders' equity and recorded in the income statement under “value adjustments of financial instruments classified as available for sale”. Any write-backs of financial instruments classified as available-for-sale are recorded in the income statement in the case of debt securities and under shareholders' equity in the case of equity instruments. The write-back may not, in any event, exceed the amortised cost that the instrument would have had in the absence of the previous adjustments.
The fair value and the related hierarchy are determined in accordance with the criteria illustrated for financial assets held for trading.
Financial assets whose fair value cannot be reliably determined on the basis of the above are maintained at cost.

Derecognition criteria

Financial assets available for sale are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets.

3. Financial assets held to maturity

Classification criteria

This category includes financial debt instruments with a fixed term and fixed or calculable payments that the Bank intends to hold and is capable of holding to maturity.

Recognition criteria

Initial recognition of financial assets held to maturity is at the date of settlement, based on their cost increased by transaction costs directly attributable to acquisition of the financial instrument.
Recognition to this category is subject to regulations that limit their changes.
The Bank cannot classify financial assets as held to maturity if in the current or two previous years it has disposed of, or reclassified prior to maturity, a significant total of investments held to maturity other than those sold or reclassified which:
- are so close to maturity that changes in interest rates can have no significant impact on the fair value of the financial asset;
- occur after the Bank has collected almost all the original capital through scheduled or early payments;
- can be attributed to an isolated event, beyond the control of the Bank, are non-recurring and could not have reasonably been predicted.

Valuation criteria and measurement of income components

Following initial recognition, financial assets held to maturity are recorded at their amortised cost using the effective interest rate method. Gains or losses on such assets held to maturity are recognised to the income statement at the time of cancellation of the assets.
At year end, impairment testing is performed. The amount of any impairment is recorded under the income statement item value adjustments of financial instruments classified as held to maturity. If the reasons for impairment are removed following an event occurring after recognition of the impairment, write-backs are made to the income statement. The write-back may not, in any event, exceed the amortised cost that the instrument would have had in the absence of the previous adjustments.
Interest income on such financial assets is calculated by applying effective interest rate criteria.

Derecognition criteria

Financial assets held until maturity are derecognised when the contractual rights on the cash flows deriving from the assets are lost, or in the case of a transfer, when the same entails the substantial transfer of all risks and benefits related to the assets.

4. Loans to customers

Classification criteria

This category includes short and medium term loans, paid directly or acquired from third parties with fixed and determinable payments that are not listed on active markets.

Recognition criteria

Loans are initially recognised on the date on which they were provided on the basis of the fair value of the financial instrument, corresponding to the amount provided including any directly related transaction costs or commission, known at the time of the same.
Costs with the above characteristics that will be repaid by the debtor or that can be considered as standard administrative costs are excluded.

Valuation criteria and measurement of income components

Following initial recognition, customer loans are stated at amortised cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/write-backs and the amortisation – calculated on the basis of the effective interest rate – of the difference between the amount provided and that repayable at maturity, usually the cost/income directly attributed to the individual loan.
The effective interest rate is the rate that discounts the flow of future payments estimated for the expected duration of the loan, in order to obtain the exact net book value at the time of initial recognition, which includes both the directly attributable transaction costs and all of the fees paid or received between the parties. This accounting method, based on financial logic, enables the economic effect of costs/income to be spread over the expected residual life of the loan.
The estimation of the flows and of the contractual duration of the loan takes into account all contractual clauses that may influence the amounts and the maturities (such as, for example, early extinction and various exercisable options), without considering, on the other hand, any losses expected on the loan. The effective interest rate calculated initially is that (original) which is always used to discount the expected cash flows and to determine the amortised cost, subsequent to initial recognition.
The amortised cost method is not applied to short-term loans, as the effect of discounting is considered negligible and the same are therefore valued at their historic cost. The same valuation criteria are adopted in the case of on-demand loans or loans whose duration is undetermined. The amortised cost method is also not applied to loans for which the effect of discounting would generate insignificant results.
Furthermore, an analysis is performed to identify impaired loans that show objective evidence of possible impairment. These loans include are those under the risk categories "non-performing", "problem", “restructured” and “overdue”, as defined by regulatory provisions.
The measurement of non-performing loans is made on an individual basis regardless of the amount.
The measurement of problem, restructured or overdue exposure is also made analytically on an individual basis.

Value adjustments of each loan correspond to the difference between the amortised cost (or historic cost for short-term, on demand loans or loans with a negligible amortised cost) at the time of their valuation and the present value of the expected future cash flows, calculated by applying the original effective interest rate.
In order to determine the present value of future cash flows, the fundamental elements are represented by the identification of the estimated realisable value of any guarantees supporting said items, expected recovery times and charges that are expected to be incurred to recover the credit risk.
Concerning non-performing loans, the positions are valued analytically, by estimating the recovery value to be discounted on the basis of average recovery times, determined on a historic-statistical basis;
Also problem loans and restructured loans are valued analytically by estimating the recovery value to be discounted, which is applied to loans for which impairment loss is envisaged and determined on the basis of average recovery times determined on a historic-statistical basis.
Overdue and impaired loans are valued using internal models that calculate the write-down based on statistical data provided by the model.

Loans for which no objective evidence of impairment loss has been identified, namely performing loans (including those to counterparties in countries at risk), are measured on a portfolio basis.
This valuation takes place using a simplified approach, which provides for the use of default probabilities (PD; a parameter that approximated on a historic statistical basis the average default probability over one year) and the expected loss index (LGD; a parameter that on a historic statistical basis the rate of loss in the case of default). The amount of depreciation is equal to the product of the total value of performing loans PD and LGD.
Lastly, in determining the realisable value, also taken into account was the effect resulting from discounting, calculated on the basis of the actual rate applied and the estimated collection periods of non-performing loans.
Write-downs are calculated as the difference between amortised cost, or historic cost, of loans belonging to the same category and the corresponding presumed recoverable amount.
Write-backs of provisions for impaired loans are made only when the quality of the loan has improved to the point at which there is reasonable certainty that the capital and interest will be recovered in accordance with the original contractual terms of the loan, or when the amount actually recovered exceeds the previously estimated recoverable value. These write-backs also include the positive effect related to the return of the discounting effect resulting from a gradual reduction of the time estimated to recover the loan under valuation.
Repurchase agreement transactions are not written down as they do not represent a credit risk.
The amount of value adjustments net of previous provisions and the partial or full recovery of amounts previously written-down are recorded in the income statement under net value adjustments/write-backs due to impairment.

Derecognition criteria

Loans are derecognised from balance sheet assets when they are deemed totally unrecoverable or if transferred, when this entails the substantial transfer of all loan-related risks and benefits.

5. Due from banks

Classification criteria

This category includes unlisted financial assets held at banks (current accounts, guarantee deposits, debt securities etc.) classified in the loans portfolio. It also includes amounts due from Central Banks that are not demand deposits (e.g. mandatory reserves).
The criteria adopted for recognition, valuation, derecognition and measurement of the income component criteria of this category is the same as that adopted in the due from customers category.

6. Equity investments

Classification criteria

This category includes investments in subsidiaries, associates and joint ventures. Minority interests held by the Bank are included under available-for-sale financial assets.

Recognition criteria

Equity investments are recorded in the balance sheet at cost including additional charges.

Valuation criteria

If there is evidence that the value of an equity investment may be impaired, the recoverable value of said equity investment is estimated by considering the present value of future cash flows that the investment could generate, including the final disposal value of the investment.
If the recoverable amount is permanently lower than the book value, the difference is recorded in the income statement under net profit (loss) from equity investments.
If the reasons for impairment are removed following an event occurring after recognition of the impairment, write-backs are made to the income statement under the same item as above to the extent of the previous adjustment.

Derecognition criteria

Equity investments are derecognised when the contractual rights to cash flows deriving from the investment are lost or when the investment is transferred, with the substantial transfer of all related risks and benefits.
Criteria for measurement of income components

In accordance with IAS 18, dividends are recorded when the right of the shareholder to receive payment has been established and, therefore, after the date of resolution of the Shareholders' Meeting of the investee company.

7. Tangible assets

Classification criteria

This item includes assets for permanent use, held to generate income, to be leased, or for administrative purposes, such as land, functional property, property investments, technical installations, furniture and fittings and equipment of any nature.
Fixed assets held under a finance lease contract that have been recorded according to the method illustrated in IAS 17, which envisaged the recognition of the asset under tangible assets, are also included under this item.

Functional property is represented by assets held for the provision of services or for administrative purposes, while property investments are those held to collect lease rentals and/or held for capital appreciation.
The bank only holds functional property.
Tangible assets also include costs for improvements to third party assets if they can be separated from the assets in question (if the above costs do not display functional or usefulness-related autonomy, but future economic benefits are expected from them, they are recorded under other assets and are depreciated over the shorter period between that of expected usefulness of the improvements in question and the residual duration of the lease).
Tangible assets also include payments on account for the purchase and restructuring of assets not yet part of the production process and therefore not yet subject to depreciation.
Tangible assets that meet the requirements of IFRS 5 are classified under non-current assets and groups of assets being disposed.

Recognition criteria

Tangible assets are initially recorded at cost, including all costs directly attributable to installation of the asset. Extraordinary maintenance costs and costs for improvements leading to actual improvement of the asset, or an increase in the future benefits generated by the asset, are attributed to the reference assets and are depreciated on the basis of their residual useful life.

Valuation criteria and measurement of income components

Following initial recognition, tangible assets are recorded at cost, less accumulated depreciation and any write-downs for impairment losses, in line with the cost model illustrated in paragraph 30 of IAS 16.
Tangible assets are depreciated each year, on the basis of their useful life, adopting the accelerated depreciation method, except for:

- land, regardless of whether this was purchased separately or was incorporated into the value of the building, which, insofar as it has an indefinite useful life, is not depreciated. Free-standing buildings more than 50% owned by the Bank, and for which the value of the land has been incorporated into the value of the building, the separation between the value of the land and the value of the building, if not directly inferred by the contract of sale, will be made on the basis of independent expert assessments;
- property investments which are recorded at fair value in accordance with IAS 40.

With regard to assets purchased during the year, their depreciation rate is halved in order that their coming into use may be correctly estimated and the different times at which said assets become operational may be offset. Furthermore, the effects of the pro rata method (daily amortisation based on the asset's effective useful life) would be negligible.

At the end of each year, if there is any evidence that an asset may have suffered an impairment loss, a comparison is made between its book value and its recoverable amount, equal to the higher between the fair value, net of any costs to sell, and the related value in use of the asset, intended as the actual value of future cash flows expected from the asset. Any adjustments are recognised to the income statement under net value adjustments/write-backs on tangible assets. If the reasons that led to recognition of the impairment loss cease to apply, a write-back is recorded that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses.

Derecognition criteria

A tangible asset is cancelled from the balance sheet on its disposal or when the asset is permanently withdrawn from use and no future economic benefit is expected from its disposal.

8. Intangible assets

Classification criteria

This item includes non-monetary assets without physical substance that satisfy the following requirements:

- they can be identified;
- they can be monitored;
- they generate future economic benefits.

In the absence of one of the above characteristics, the expense of acquiring or generating the asset internally is recorded as a cost in the year in which it was incurred.
Intangible assets include, in particular, software to be used over several years and other identifiable intangible assets generated by legal or contractual rights.

Goodwill is also included under this item, representing the positive difference between the acquisition cost and fair value of the assets and liabilities acquired as part of a business combination. Specifically, an intangible asset is recognised as goodwill when the positive difference between the fair value of equity components acquired and the acquisition cost of the investment (including additional charges) represents the future capacity of the equity investment to generate profit. If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the assets/liabilities acquired, it is instead recognised directly to the income statement.

Recognition criteria

Intangible assets are initially recognised at cost, including any directly attributable charges.

Valuation criteria

Following initial recognition, intangible assets are recorded at cost less any accumulated amortisation and any impairment losses, applying the cost model referred to in paragraph 74 of IAS 38.
Intangible assets are systematically amortised each year on the basis of their estimated useful life, on a straight line basis. With regard to assets purchased during the year, their depreciation rate is halved in order that their coming into use may be correctly estimated and the different times at which said assets become operational may be offset. Furthermore, the effects of the pro rata method (daily amortisation based on the asset's effective useful life) would be negligible.
For assets with an indeterminate useful life, e.g. goodwill, amortisation is no longer considered, but the assets are subject to periodic impairment testing in compliance with the provisions of IAS 36. Any impairment, calculated on the difference between the recognition value of goodwill and its realisation value, is recognised to the income statement under "value adjustments to goodwill".

Derecognition criteria

Intangible assets are derecognised when no future benefits are expected from their use or on their disposal.

9. Tax assets and tax liabilities

Current and deferred income taxes are calculated according to tax legislation in force. Income tax is recorded in the income statement, with the exception of that for items charged or credited directly to shareholders' equity.
Provisions for income tax are calculated on the basis of a prudent estimate of current, prepaid and deferred tax charges. In particular, prepaid and deferred taxes are determined on the basis of the temporary differences between the book value of assets and liabilities and their value for taxation purposes. Prepaid tax assets are recorded in the balance sheet to the extent that it is probable that they will be recovered on the basis of the Bank's ability to continue to generate positive taxable income.
Advanced and deferred taxes are recorded in the Balance Sheet (without being offset), including the former under the item "tax assets" and the latter under "tax liabilities".
Deferred tax assets and deferred tax liabilities are recorded in the income statement with the exception of those relating to gains or losses on available-for-sale financial assets.
Lastly, it should be specified that with regard to reserves and positive revaluation balances subject to tax deferment, no provisions were made for the related deferred taxes, in compliance with the provisions of IAS 12, paragraph 52B which requires provisioning of a deferred tax liability to deferred tax reserves at the time their distribution is decided. In this respect, the Bank has not adopted, nor is it likely to adopt in the short/medium-term, measures to integrate requirements for the payment of the deferred tax.

10. Non-current assets and groups of assets being disposed of

Classification criteria

This item includes all non-current assets and groups of assets being disposed of in accordance with IFRS 5, namely those assets or groups of assets whose book value will be recovered mainly through their sale rather than through their ongoing use.

Valuation criteria

These assets are valued at the lower of their book value and their fair value net of selling costs, with the exclusion of the following assets which continue to be valued in accordance with the reference principle:
• deferred tax assets;
• assets deriving from employee benefits;
• financial instruments;
• property investments.

Criteria for measurement of income components

Income (interest income, dividends etc,) and charges (interest expense, amortisation and depreciation, etc.) that refer to groups of assets and related liabilities being disposed of are recorded, net of current and deferred tax, under profit (loss) on groups of assets being disposed of, net of taxes in the income statement. Income and charges regarding individual non-current assets being disposed of continue to be recorded under the relevant item.

LIABILITIES

1. Due to customers, due to banks and outstanding securities

Classification criteria

Due to customers, due to banks and outstanding securities include the various forms of funding from customers, interbank funding and deposits made through interest-bearing notes, certificates of deposit and bonds, net of any amounts repurchased by the Bank. It also includes securities which, at the balance sheet date, were due but not yet repaid. This item also includes the residual debt owed to the lessor of the finance lease transactions recognised in accordance with IAS 17.

Recognition criteria

These financial liabilities are initially recognised when the deposits are received or when the debt securities are issued. Initial recognition is made on the basis of the fair value of the liabilities, usually equal to the amount received or to the issue price plus any additional costs/income directly attributable to the individual funding or issue transaction and that have not been reimbursed by the creditor. Internal administrative costs are excluded.

Valuation criteria

After initial recognition, the above financial liabilities are recorded at amortised cost using the effective interest rate method, with the exception of short-term liabilities, which continue to be recorded at face value since the effect of discounting would be negligible.

Derecognition criteria

The above financial liabilities are derecognised from the balance sheet at maturity or when they are extinguished. They are derecognised also in the event of repurchase, even temporary, of the previously-issued securities. Any difference between the book value of the extinguished liability and the amount paid is recorded in the income statement, under profit/loss from sale or repurchase. If the Bank, subsequent to the repurchase, re-places its own securities on the market, said transaction is considered a new issue and the liability is recorded at the new placement price.

2. Financial liabilities held for trading:

Classification criteria

This item includes financial liabilities, whatever their technical form (debt securities, loans, etc.), classified in the trading portfolio. The item includes the negative value of outright foreign trading derivatives, together with the negative value of derivatives that fall within the scope of application of the fair value option. It also includes liabilities that originate from technical losses generated by the trading of securities.

Valuation criteria

All trading liabilities are carried at fair value established as illustrated in the paragraph on financial assets held for trading.

3. Financial liabilities designed at fair value

Classification criteria

This item includes liabilities or groups of financial liabilities which are designated at fair value with the effects of said designation recorded in the income statement, on the basis of the Fair Value Option (FVO) envisaged by IAS 39.
As at the reference date for these Financial Statements, the Bank's hedged bond issues and other issues of securities have been classified under this category.
Recognition, valuation, derecognition criteria and measurement of income components

With regard to the recognition, valuation, derecognition and measurement of income components of said financial liabilities, reference should be made to the paragraph on financial assets held for trading.

4. Liabilities associated with assets being disposed of

Please refer to the paragraph on the asset item non-current assets and groups of assets being disposed of.

5. Staff severance indemnities

According to IFRIC, the staff severance fund is determined as a benefit subsequent to an employment relationship and is therefore covered by the provisions of IAS 19. Consequently, at year end, this item is estimated on an actuarial basis and is discounted using the projected unit credit method. The latter entails forecasting future payments on the basis of historic, statistic and probabilistic analyses and the adoption of appropriate demographic data. The discounting rate is determined on the basis of the spot rate curve deduced from domestic market conditions for Government securities and the average remaining period of service of Bank employees.
Assessment of the staff severance fund was performed by an independent actuary in compliance with the above-mentioned method.

Actuarial profit and loss deriving from adjustments to actuarial estimates are posted in the income statement.

6. Provisions for risks and charges

In line with the requirements of IAS 37, provisions for risks and charges cover liabilities, the amount or timing of which is uncertain, related to current obligations (legal or implicit), owing to a past event for which it is likely that financial resources will be used to fulfil the obligation, on condition that an estimate of the amount required to fulfil said obligation can be made. Where deferral of the liability is expected to generate a significant discounting effect, provisions are discounted at current market rates. The provision is recorded in the income statement under net allocation to provisions for risks and charges.

Other information

1. Currency transactions

Foreign currency transactions are recorded, at the time of initial recognition, in Euro, applying the exchange rate in force on the date of the transaction to the amount in foreign currency.
Subsequently, assets and liabilities in foreign currency are converted into Euro using the year-end exchange rate. With regard to repurchase agreements and derivatives in foreign currency, please refer to the paragraphs on financial assets and liabilities held for trading.
Exchange rate differences relating to the translation of non-monetary items or to the conversion of monetary items at exchange rates other from those used for the initial conversions, or for conversion of the previous financial statements, are recorded in the income statement for the period in which they arose under net income from trading activities for financial assets or liabilities in foreign currency, separate from those designated at fair value, those covered by fair value and cash flow hedges and other hedges.

2. Repurchase agreement transactions

Transactions for the spot sale or purchase of securities with simultaneous obligation to forward repurchase or sell, are classified as items carried forward and therefore amounts received and paid are shown in the financial statements as payables and receivables. In particular, spot sale and forward repurchase transactions are recognised as payables using the amount due in the spot transaction, whilst spot purchase and forward sellback transactions are recognised as receivables using the amount paid in the spot transaction. Likewise, the cost of funding and the income resulting from the investment, represented by coupons matured on the securities and by the spread between spot price and forward price, are recorded on an accruals basis under interest items in the income statement. These transactions do not lead to changes in the securities portfolio.

3. Securitisations

In 2006 and 2008 the Bank completed two securitisations through which it disposed of a performing loans portfolio to SPVs, the first to Voba Finance Srl and the second to Voba Finance N.2 Srl.
These transactions do not meet the requirements of IAS 39 and therefore cannot be derecognised as the Bank had subscribed the junior tranche of the securities issued by Voba Finance Srl and all the securities issued by Voba Finance N.2 Srl.
As a consequence, with regard to the above securitisation transactions, the securitised assets remaining at that date, specifically the share related to loans granted by the Bank and to reversal of the securities subscribed, were recognised.

4. Recognition of income

Revenue is recognised when received or in any event when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. Specifically:

- interest amounts are recognised on an accrual basis according to the contractual interest rate or actual interest rate if the amortised cost methods is applied;

dividends are recognised to the income statement when the allocation of dividends is resolved upon pursuant to IAS 18 paragraph 30c;

- revenues from the brokerage of financial instruments held for trading, calculated as the difference between the transaction price and fair value of the instrument, are recognised to the income statement at the time of the transaction if fair value can be determined in reference to benchmarks or recent transactions can be observed on the market on which the instrument is traded;
- other commissions are recognised according to the accrual principle.

5. Criteria for determination of fair value of financial instruments

The criteria for calculating fair values of shares are based on the hierarchic levels of fair values themselves, as follows:

Level 1

Securities listed on active regulated markets belong to level 1 of the hierarchy of fair values. The official price (or other equivalent price) on the last day in the reference period is assumed as the fair value for financial instruments traded in an active regulated market.

Level 2

The following price configurations are considered the fair value of financial instruments not traded on an active regulated market:

- when available and reliable, the price provided by other information sources such as Bloomberg, Reuters or other market maker platforms (non regulated markets);
    - In the case of UCI mutual investment funds the NAV supplied by the management company is deemed to be the fair value;
- If it is not possible to resort to the sources under the previous item, valuation techniques based upon a zero coupon curve are used, on forward rates inherent in the curve itself, and on credit spreads, as identifiable on the Bloomberg or Reuters platforms, in order to take account of the counterpart and/or liquidity risk; it is further stressed that
    - for over the counter derivatives the fair value designated is the market value at the reference date calculated using the techniques indicated below on the basis of the type of contract:
        - interest rate contracts: the "market value" is represented by the "replacement cost", determined through discounting of the differences, on the expected settlement dates, between the flows calculated at contract rates and the expected flows calculated at the market rate, objectively determined, current as at year-end for the same residual maturity;
        - option contracts on securities, currency and other instruments: the market value is represented by the "theoretical value" on the reference date, determined using the Black & Scholes method or equivalent method.

      For over the counter contracts, the fair value is calculated by adjusting the market value, if positive, of the credit risk associated with the counterparty.

- In the case of capitalisation insurance contracts fair value corresponds to the value at maturity in compliance with the issue regulations.

It is stressed that for fair value level 2, in the case of the use of valuation techniques, the input used in the pricing models are entirely and directly observable on the market (as for example, the zero coupon curve), without any significant gaps for the arbitrary nature of the inputs themselves or of the valuation models that use them. If not, the terms for the application for fair value level 3 are confirmed.

Level 3

Securities that can be valued exclusively by means of models fed even only partially by inputs that are not directly observable on the market belong to level 3 of the fair value hierarchy, as do securities for which the choice of valuation model or the underlying hypotheses present excessively arbitrary margins.
As in level 2, in the absence of reliable price from third party sources, fair values are calculated by means of models based largely on inputs such as the zero coupon curve, the corresponding forward rates and credit spreads when the market can provide them. However, the complex nature of level 3 securities does not enable doing away with hypotheses that are partially arbitrary, about the nature of future financial flows.
In particular, securities not listed on active markets for which the fair value cannot be calculated reliably according to the above approaches are valued at cost, adjusted to take into account any significant impairment losses.
The fair value of investments in equity instruments classified as available-for-sale financial assets is calculated as follows:

- for investments in companies not listed on active regulated markets (level 1): the market price for the last day of trading of the year is the designated fair value;
- for investments in companies not listed on active regulated markets (level 2 or 3): if the amount is significant, the fair value is assumed to be the value resulting from independent assessments or from recent transactions, if available, or failing which, the value corresponding to the share of shareholders' equity held, as recorded in the company’s last approved financial statements; equity investments of insignificant amounts are maintained at cost.
- for investments in debt securities or other capital instruments the above rules are applied.

A.3 – INFORMATION ABOUT FAIR VALUE

A.3.1 Transfers between portfolios

A.3.1.1. Reclassified financial assets: book value, fair value and effects on comprehensive income

Type of Financial Instrument (1)	Source Portfolio (2)	Destination Portfolio (3)	Book Value as at 31/12/2010 (4)	Fair value as at 31/12/2010 (5)	Income components in the absence of transfers (before tax)		Income components entered in the year (before tax)	
					Valuation (6)	Other (7)	Valuation (8)	Other (9)
Debt securities	HFT	AFS	25,941	25,941	658	1,052	610	1,101
UCITS units	HFT	AFS	33,644	33,644	437	136	537	35
Debt securities	HFT	HTM	11,552	11,547	180	67	-	525

The above financial assets have been reclassified in October 2008 under the amendment to IAS 39 (EC Regulation 1004/2008 from the Commission dated 15/10/2008), which provides for the possibility of reclassifying certain financial instruments under rare circumstances.

During the course of the year 2010 no further reclassifications were carried out.

A.3.2 Fair Value hierarchy

A.3.2.1 Accounting portfolios: breakdown by fair value levels

	31.12.2010			31.12.2009		
Financial Assets/Liabilities carried at fair value	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Financial assets held for trading	88,049	190,662	18,204	51,260	193,046	17,614
2. - financial assets carried at fair value	-	-	-	-	-	-
3. Financial assets available for sale	18	66,252	20,408	28	90,235	38,344
4. Hedges	-	-	-	-	-	-
Total	**88,067**	**256,914**	**38,612**	**51,288**	**283,281**	**55,958**
1. Financial liabilities held for trading	129	15,181	-	117	17,178	-
2. Financial liabilities designed at fair value	-	605,330	-	-	491,451	-
3. Hedges	-	-	-	-	-	-
Total	**129**	**620,511**	**-**	**117**	**508,629**	**-**

A. 3.2.2 Annual changes in financial assets carried at fair value (level 3)

	FINANCIAL ASSETS			
	held for trading	carried at fair value	financial assets	hedges
1. Opening balance	**17,614**	**-**	**38,344**	**-**
2. Increases	**2,889**	**-**	**2,858**	**-**
2.1 Purchases	2,293	-	56	-
2.2 Profits allocated as:	451	-	1,867	-
2.2.1 Income Statement	451	-	19	-
- including capital gains	451	-	-	-
2.2.2 Shareholders' equity	**X**	**X**	1,848	-
2.3 Transfers from other levels	-	-	-	-
2.4 Other increases	145	-	935	-
3. Decreases	**2,299**	**-**	**20,794**	**-**
3.1 Sales	2,035	-	9,953	-
3.2 Reimbursements	137	-	-	-
3.3 Losses allocated as:	3	-	1,268	-
3.3.1 Income statement	3	-	218	-
- including capital losses	3	-	-	-
3.3.2 Shareholders' equity	**X**	**X**	1,050	-
3.4 Transfers to other levels	-	-	9,409	-
3.5 Other decreases	124	-	164	-
4. Closing balance	**18,204**	**-**	**20,408**	**-**

PART B

INFORMATION ON THE BALANCE SHEET

Assets

SECTION 1 – Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

	31.12.2010	31.12.2009
a) Cash on Hand	41,452	35,355
b) Demand deposits at Central Banks	-	-
Total	**41,452**	**35,355**

Section 2 – Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by type

Items/Amounts	31.12.2010			31.12.2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	87,897	166,713	18,203	51,127	163,791	17,614
1,1 Structured securities	-	13,317	17,710	-	10,651	17.469
1,2 Other debt securities	87,897	153,396	493	51,127	153,140	145
2. Equity securities	-	-	-	-	-	-
3. UCITS units	-	35	-	-	2,997	-
4. Loans	-	-	-	-	-	-
4,1 Repurchase agreements	-	-	-	-	-	-
4,2 Other	-	-	-	-	-	-
Total A	**87,897**	**166,748**	**18,203**	**51,127**	**166,788**	**17,614**
B. Derivatives						
1. Financial derivatives	152	23,915	-	133	26,258	-
1,1 held for trading	152	12,680	-	133	15,001	-
1,2 related to the fair value option	-	11,235	-	-	11,257	-
1,3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2,1 held for trading	-	-	-	-	-	-
2,2 related to the fair value option	-	-	-	-	-	-
2,3 other	-	-	-	-	-	-
Total B	**152**	**23,915**	**-**	**133**	**26,258**	**-**
Total (A+B)	**88,049**	**190,663**	**18,203**	**51,260**	**193,046**	**17,614**

2.2 Financial assets held for trading: breakdown by debtor/issuer

Items/Amounts	31.12.2010	31.12.2009
A. CASH ASSETS		
1. Debt securities	**272,813**	**232,532**
a) Governments and Central Banks	92,918	60,234
b) Other public authorities	-	-
c) Banks	121,511	132,793
d) Other issuers	58,384	39,505
2. Equity securities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
- non-financial companies	-	-
- other	-	-
3. UCITS units	**35**	**2,997**
4. Loans	**-**	**-**
a) Governments and Central Banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**272,848**	**235,529**
B. DERIVATIVES		
a) Banks		
fair value	11,482	10,900
b) Customers		
fair value	12,585	15,491
Total B	**24,067**	**26,391**
Total (A+B)	**296,915**	**261,920**

2.3 Financial cash assets held for trading: annual changes

	Debt securities	Equity securities	UCITS units	Funding	**Total**
A. Opening balance	**232,532**	**-**	**2,997**	**-**	**235,529**
B. Increases	**673,988**	**-**	**9,144**	**-**	**683,132**
B1. Purchases	667,337	-	8,953	-	676,290
B2. Positive changes in fair value	714	-	7	-	721
B3. Other changes	5,937	-	184	-	6,121
C. Decreases	**633,707**	**-**	**12,106**	**-**	**645,813**
C1. Sales	547,113	-	-	-	547,113
C2. Redemptions	73,884	-	11,941	-	85,825
C3. Negative changes in fair value	2,816	-	-	-	2,816
C4. Transfers to other portfolios	-	-	-		
C5. Other changes	9,894	-	165	-	10,059
D. Closing balance	**272,813**	**-**	**35**	**-**	**272,848**

SECTION 3 – Financial assets carried at fair value – Item 30

This section has not been completed.

SECTION 4 – Available-for-sale financial assets – Item 40

4.1 Financial assets available for sale: breakdown by type

Items/Amounts	31.12.2010			31.12.2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt securities	-	18,241	9,650	-	20,202	27,272
1.1 Structured securities	-	10,634	5,679	-	1,566	23,500
1.2 Other debt securities	-	7,607	3,971	-	18,636	3,772
2. Equity securities	18	-	10,759	28	-	11,072
2.1 Carried at fair value	18	-	56	28	-	-
2.2 Measured at cost	-	-	10,703	-	-	11,072
3. UCITS units	-	48,010	-	-	70,033	-
4. Loans	-	-	-	-	-	-
Total	**18**	**66,251**	**20,409**	**28**	**90,235**	**38,344**

4.2 Financial assets available for sale: breakdown by debtor/issuer

Items/Amounts	31.12.2010	31.12.2009
1. Debt securities	**27,892**	**47,474**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	26,428	45,090
d) Other issuers	1,464	2,384
2. Equity securities	**10,776**	**11,100**
a) Banks	2,689	2,643
b) Other issuers:	8,087	8,457
- insurance companies	-	-
- financial companies	40	195
- non-financial companies	8,047	8,262
- other	-	-
3. UCITS units	**48,010**	**70,033**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**86,678**	**128,607**

4.4 Financial assets available for sale: annual changes

		Debt securities	Equity securities	UCITS units	Funding	**Total**
A.	**Opening balance**	**47,474**	**11,100**	**70,033**	**-**	**128,607**
B.	**Increases**	**5,992**	**55**	**16,038**	**-**	**22,085**
B1.	Purchases	1,940	**55**	14,804	-	16,799
B2.	Positive changes in fair value	16	-	354	-	370
B3.	Write-backs	2,872	-	514	-	3,386
	- Allocated to the income statement	28	X	-	-	28
	- Allocated to shareholders' equity	2,844	-	514	-	3,358
B4.	Transfers from other portfolios	-	-	-	-	-
B5.	Other changes	1,164	-	366	-	1,530
C.	**Decreases**	**25,574**	**379**	**38,061**	**-**	**64,014**
C1.	Sales	20,847	369	54	-	21,270
C2.	Redemptions	1,940	-	37,465	-	39,405
C3.	Negative changes in fair value	2,219	10	390	-	2,619
C4.	Write-downs for impairment	373	-	126	-	499
	- Allocated to the income statement	341	-	100	-	441
	- Allocated to shareholders' equity	32	-	26	-	58
C5.	Transfers to other portfolios	-	-	-	-	-
C6.	Other changes	195	-	26	-	221
D.	**Closing balance**	**27,892**	**10,776**	**48,010**	**-**	**86,678**

SECTION 5 – Financial assets held to maturity – Item 50

5.1 Financial assets held to maturity: breakdown by type

	31.12.2010				31.12.2009			
	BV	Fair value			BV	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	11,552	-	3,526	7,915	11,416	-	3,962	7,627
- structured	7,738	-	-	7,915	7,278	-	-	7,627
- other	3,814	-	3,526	-	4,138	-	3,962	-
2. Loans	-	-	-	-	-	-	-	-
Total	**11,552**	**-**	**3,526**	**7,915**	**11,416**	**-**	**3,962**	**7,627**

5.2 Financial assets held to maturity: debtor/issuer

Type of transaction/Amounts	31.12.2010	31.12.2009
1. Debt securities	**11,552**	**11,416**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	7,738	7,278
d) Other issuers	3,814	4,138
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**11,552**	**11,416**

5.4 Financial assets held to maturity: annual changes

		Debt securities	Loans	Total
A.	**Opening balance**	**11,416**	**-**	**11,416**
B.	**Increases**	**510**	**-**	**510**
B1.	Purchases	-	-	-
B2.	Write-backs	-	-	-
B3.	Transfers from other portfolios	-	-	-
B4.	Other changes	510	-	510
C.	**Decreases**	**374**	**-**	**374**
C1.	Sales	-	-	-
C2.	Redemptions	371	-	371
C3.	Value adjustments	-	-	-
C4.	Transfers to other portfolios	-	-	-
C5.	Other changes	3	-	3
D.	**Closing balance**	**11,552**	**-**	**11,552**

SECTION 6 – Due from banks – Item 60

6.1 Due from banks: breakdown by type

Type of transaction/Amounts			31.12.2010	31.12.2009
A.	**Due from Central Banks**		**25,535**	**31,218**
1.	Fixed-term deposits		-	-
2.	Compulsory reserve		25,535	31,218
3.	Repurchase agreements		-	-
4.	Other		-	-
B.	**Due from banks**		**24,895**	**20,411**
1.	Current accounts and demand deposits		12,956	9,688
2.	Fixed-term deposits		11,939	10,723
3.	Other loans		-	-
	3.1	Repurchase agreements	-	-
	3.2	Finance leasing	-	-
	3.3	Other	-	-
4.	Debt securities		-	-
	4.1	Structured securities	-	-
	4.2	Other debt securities	-	-
		Total (book value)	**50,430**	**51,629**
		Total (fair value)	**50,430**	**51,629**

As at 31/12/2010 there were no impaired assets to banks.

SECTION 7 – Due from customers – Item 70

7.1 Due from Customers: breakdown by type

Type of transaction/Amounts	31.12.2010		31.12.2009	
	Performing	Impaired	Performing	Impaired
1. Current accounts	1,400,864	104,465	1,492,293	134,172
2. Repurchase agreements	345	-	228	-
3. Mortgages	2,471,447	131,834	2,156,597	162,358
4. Credit cards, personal loans and loans on salary	21,592	121	20,216	381
5. Finance leasing	-	-	-	-
6. Factoring	-	-	-	-
7. Other transactions	364,509	17,478	457,170	14,675
8. Debt securities	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other debt securities	-	-	-	-
Total (book value)	**4,258,757**	**253,898**	**4,126,504**	**311,586**
Total (fair value)	**4,606,435**		**4,802,221**	

Overall loans to customers came to 4,512,655 thousand Euro as at 31/12/2010.

Loans paid out with funds provided by public entities with related risk borne by the Bank amount to Euro 128.5 million, Euro 68.6 million of which by public entities.

7.2 Due from Customers: breakdown by debtor/issuer

Type of transaction/Amounts	31.12.2010		31.12.2009	
	Performing	Impaired	Performing	Impaired
1. Debt securities:	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-
b) Other public authorities	-	-	-	-
c) Other issuers	-	-	-	-
- non-financial companies	-	-	-	-
- financial companies	-	-	-	-
- insurance companies	-	-	-	-
- other	-	-	-	-
2. Loans to:	**4,258,757**	**253,898**	**4,126,504**	**311,586**
a) Governments	-	-	-	-
b) Other public authorities	6,326	-	1,719	-
c) Other entities	4,252,431	253,898	4,124,785	311,586
- non-financial companies	2,775,206	196,323	2,384,761	218,573
- financial companies	44,267	4,989	116,556	6,302
- insurance companies	61	-	1,267	-
- other	1,432,897	52,586	1,622,201	86,711
Total	**4,258,757**	**253,898**	**4,126,504**	**311,586**

SECTION 8 – Hedges – Item 80

This section has not been completed.

SECTION 9 – Value adjustments of financial assets subject to macrohedging – Item 90

This section has not been completed.

SECTION 10 – Equity Investments – Item 100

10.1 Equity investments in subsidiaries, jointly controlled companies or companies subject to significant control: information on investment relationships

Name	Registered office	% investment	Voting rights
A. COMPANIES 100% CONTROLLED			
1. Voba Invest S.r.l.	Bolzano	100%	
B. JOINTLY CONTROLLED COMPANIES			
C. COMPANIES SUBJECT TO SIGNIFICANT CONTROL			
1. Casa di Cura Villa S. Anna S.r.l.	Merano	35%	

10.2 Equity investments in subsidiaries, jointly controlled companies or companies subject to significant control: accounting information

Name	Total assets	Total income	Profit/ Loss	Shareholders' equity	Book value	*Fair value*
A. COMPANIES 100% CONTROLLED						
1. Voba Invest S.r.l.	18,693	983	(4,443)	(1,621)	-	
B. JOINTLY CONTROLLED COMPANIES						
C. COMPANIES SUBJECT TO SIGNIFICANT CONTROL						
1. Casa di Cura Villa S. Anna (*)	3,410	4,833	336	1,686	516	
	22,103	**5,816**	**(4,107)**	**65**	**516**	

(*) the figures for this equity investment refer to the year ended 31/12/2009.

10.3 Equity Investment: annual changes

		31.12.2010	31.12.2009
A.	**Opening balance**	**4,049**	**5,041**
B.	**Increases**	**2,500**	**-**
B.1	Purchases	2,500	-
B.2	Write-backs	-	-
B.3	Revaluations	-	-
B.4	Other changes	-	-
C.	**Decreases**	**6,033**	**992**
C.1	Sales	4,000	-
C.2	Value adjustments	2,033	-
C.3	Other changes	-	992
D.	**Closing balance**	**516**	**4,049**
E.	**Total revaluations**	**-**	**-**
F.	**Total adjustments**	**-**	**-**

It should be pointed out that the changes are due to the incorporation and liquidation of Voba Invest Equity S.p.A. and the write-down of Voba Invest S.r.l. Details are contained in the Directors' Report.

SECTION 11 – Tangible assets – Item 110

11.1 Tangible assets: breakdown of assets carried at cost

Asset/Value			31.12.2010	31.12.2009
A.	**assets**			
	1.1	**owned**	**118,452**	**122,206**
	a)	land	34,440	34,440
	b)	buildings	74,783	72,644
	c)	fixtures and fittings	6,400	9,714
	d)	electronic equipment	956	2,074
	e)	other	1,873	3,334
	1.2	**purchased under finance lease**	**-**	**-**
	a)	land	-	-
	b)	buildings	-	-
	c)	fixtures and fittings	-	-
	d)	electronic equipment	-	-
	e)	other	-	-
Total A			**118,452**	**122,206**
B.	**assets held for investment**			
	2.1	**owned**	**-**	**-**
	a)	land	-	-
	b)	buildings	-	-
	2.2	**purchased under finance lease**	**-**	**-**
	a)	land	-	-
	b)	buildings	-	-
Total B			**-**	**-**
		Total A+B	**118,452**	**122,206**

11.3 Tangible assets for use: annual changes

	Land	Buildings	Fixtures and fittings	Electronic equipmen t	Other	**Total**
A. Gross opening balance	**34,440**	**98,475**	**51,061**	**20,719**	**7,387**	**212,082**
A.1 Net total impairment	-	25,831	41,347	18,645	4,053	89,876
A.2 Net opening balance	**34,440**	**72,644**	**9,714**	**2,074**	**3,334**	**122,206**
B. Increases:	**-**	**4,965**	**1,406**	**240**	**-**	**6,611**
B.1 Purchases	-	4,965	1,397	240	-	6,602
B.2 Capitalised improvement expenses	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value allocated to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from property held as investments	-	-	-	-	-	-
B.7 Other changes	-	-	9	-	-	9
C. Decreases	**-**	**2,826**	**4,720**	**1,358**	**1,461**	**10,365**
C.1 Sales	-	-	69	-	-	69
C.2 Depreciation	-	2,826	4,603	1,358	1,461	10,248
C.3 Value adjustments for impairment allocated to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value allocated to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held as investments	-	-	-	-	-	-
b) discontinued operations	-	-	-	-	-	-
C0.7 Other changes	-	-	48	-	-	48
D. Net closing balance	**34,440**	**74,783**	**6,400**	**956**	**1,873**	**118,452**
D.1 Total net impairment	-	28,657	45,727	19,990	4,349	98,723
D.2 Gross closing balance	**34,440**	**103,440**	**52,127**	**20,946**	**6,222**	**217,175**
E. Valuation at cost	-	-	-	-	-	-

SECTION 12 – Intangible assets – Item 120

12.1 Intangible assets: breakdown by asset type

Asset/Value		31.12.2010		31.12.2009	
		Fixed term	No fixed term	Fixed term	No fixed term
A.1	Goodwill	X	40,392	X	40,392
A.2	Other intangible assets	4,731	-	5,980	-
A.2.1	Assets valued at cost:	4,731	-	5,980	-
	a) Intangible assets generated internally	-	-	-	-
	b) Other assets	4,731	-	5,980	-
A.2.2	Assets carried at fair value:	-	-	-	-
	a) Intangible assets generated internally	-	-	-	-
	b) Other assets	-	-	-	-
	Total	**4,731**	**40,392**	**5,980**	**40,392**

12.2 Intangible assets: annual changes

		Goodwill	Other intangible assets generated internally		Other intangible assets other		Total
			FIXED	NOT FIXED	FIXED	NOT FIXED	
A.	**Gross opening balance**	**40,392**	**-**	**-**	**9,232**	**-**	**49,624**
A.1	Total net impairment	-	-	-	3,252	-	3,252
A.2	**Net opening balance**	**40,392**	**-**	**-**	**5,980**	**-**	**46,372**
B.	**Increases**	**-**	**-**	**-**	**578**	**-**	**578**
B.1	Purchases	-	-	-	578	-	578
B.2	Increases in internal intangible assets	X	-	-	-	-	-
B.3	Write-backs	X	-	-	-	-	-
B.4	Positive changes in fair value	-	-	-	-	-	-
	- to shareholders' equity	X	-	-	-	-	-
	- to income statement	X	-	-	-	-	-
B.5	Positive exchange differences	-	-	-	-	-	-
B.6	Other changes	-	-	-	-	-	-
C.	**Decreases**	**-**	**-**	**-**	**1,827**	**-**	**1,827**
C.1	Sales	-	-	-	-	-	-
C.2	Value adjustments		-	-	1,827	-	1,827
	- Depreciation and amortisation	X	-	-	1,827	-	1,827
	- Write-downs		-	-	-	-	-
	+ shareholders' equity	X	-	-	-	-	-
	+ income statement	-	-	-	-	-	-
C.3	Negative changes in fair value		-	-	-	-	-
	- to shareholders' equity	X	-	-	-	-	-
	- to income statement	X	-	-	-	-	-
C.4	Transfers to non current assets available for sale	-	-	-	-	-	-
C.5	Negative exchange differences	-	-	-	-	-	-
C.6	Other changes	-	-	-	-	-	-
D.	**Net closing balance**	**40,392**	**-**	**-**	**4,731**	**-**	**45,123**
D.1	Total net value adjustments	-	-	-	2,598	-	2,598
E.	**Gross closing balance**	**40,392**	**-**	**-**	**7,329**	**-**	**47,721**
F.	Valuation at cost	-	-	-	-	-	-

Key

Fixed: Fixed term
Not fixed: No fixed term

SECTION 13 – Tax assets and tax liabilities – Item 130 under assets and item 80 under liabilities

13.1 Deferred tax assets: breakdown

IRES	31.12.2010		31.12.2009	
	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Value adjustments on loans	37,347	10,270	39,486	10,859
- Provisions for risks and charges	997	274	1,897	522
- Administrative expenses	16	5	46	13
- Revaluation of fixtures and fittings (Law 266, 23/12/05)	366	101	565	155
- Valuation of AFS securities (*)	2,609	717	3,358	923
- Staff severance indemnities	-	-	-	-
- Amortisation of prepaid tax on pre-2008 purchases	278	77	794	218
- Amortisation of prepaid tax on post-2008 purchases	3,519	968	1,945	535
- Other	1,005	276	8,173	2,248
Total	**46,137**	**12,688**	**56,264**	**15,473**

(*) with corresponding entry under shareholders' equity

IRAP	31.12.2010		31.12.2009	
	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Administrative expenses	16	1	46	2
- Revaluation of fixtures and fittings (Law 266, 23/12/05)	330	15	565	20
- Valuation of AFS securities (*)	2,609	124	3,358	121
- Other	-	-	1,827	66
Total	**2,955**	**140**	**5,796**	**209**

(*) with corresponding entry under shareholders' equity

13.2 Deferred tax liabilities: breakdown

IRES	31.12.2010		31.12.2009	
	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Land depreciation	2,106	579	2,106	579
- Revaluation of property to deemed cost	63,029	17,333	64,460	17,726
- Valuation of AFS securities (*)	369	101	58	16
- Goodwill amortisation	7,890	2,170	5,724	1,574
- Other	-	-	-	-
Total	**73,394**	**20,183**	**72,348**	**19,895**

(*) with corresponding entry under shareholders' equity

IRAP	31.12.2010		31.12.2009	
	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Land depreciation	2,106	100	2,106	76
- Revaluation of property to deemed cost	63,029	2,992	67,207	2,419
- Valuation of AFS securities (*)	369	18	58	2
- Goodwill amortisation	7,890	375	5,724	206
- Other	-	-	-	-
Total	**73,394**	**3,485**	**75,095**	**2,703**

(*) with corresponding entry under shareholders' equity

13.3 Changes in prepaid taxes (with corresponding entry in the income statement)

		IRES	IRAP	31.12.2010	31.12.2009
1.	**Initial amount**			**14,637**	**9,224**
2.	**Increases**	**986**	**4**	**990**	**6,581**
2.1	Prepaid taxes recognised during the year	986	4	990	6,581
	a) relating to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) write-backs	-	-	-	-
	d) other	986	4	990	6,581
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**3,565**	**75**	**3,640**	**1,168**
3.1	Prepaid taxes cancelled during the year	3,565	75	3,640	1,168
	a) re-endorsements	3,565	7	3,572	845
	b) writedowns due to irrecoverability	-	-	-	-
	c) change of accounting standards	-	-	-	-
	d) other		68	68	323
3.2	Decreases in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Final amount**			**11,987**	**14,637**

13.4 Changes in deferred taxes (with corresponding entry in the income statement)

		IRES	IRAP	31.12.2010	31.12.2009
1.	**Initial amount**			**22,581**	**23,499**
2.	**Increases**	**596**	**916**	**1,512**	**1,108**
2.1	Deferred taxes recognised during the year	596	916	1,512	1,108
	a) relating to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	596	916	1,512	1,108
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**393**	**151**	**544**	**2,026**
3.1	Deferred taxes cancelled during the year	393	151	544	2,026
	a) re-endorsements	393	52	445	384
	b) due to change in accounting standards	-	-	-	-
	c) other	-	99	99	1,642
3.2	Decreases in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Final amount**			**23,549**	**22,581**

13.5 Changes in deferred tax assets (with corresponding entry under shareholders' equity)

		IRES	IRAP	31.12.2010	31.12.2009
1.	**Initial amount**			**1,044**	**2,333**
2.	**Increases**	**-**	**30**	**30**	**-**
2.1	Prepaid taxes recognised during the year	-	30	30	-
	a) relating to previous years	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	-	30	30	-
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**206**	**27**	**233**	**1,289**
3.1	Prepaid taxes cancelled during the year	206	27	233	1,289
	a) re-endorsements	206	27	233	1,287
	b) writedowns due to irrecoverability	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other		-	-	2
3.2	Decreases in tax rates	-	-	-	-
3.3	Other decreases	-	-	-	-
4.	**Final amount**			**841**	**1,044**

13.6 Changes in deferred taxes (with corresponding entry under shareholders' equity)

		IRES	IRAP	31.12.2010	31.12.2009
1.	**Initial amount**			**18**	**67**
2.	**Increases**	**86**	**15**	**101**	**-**
2.1	Deferred taxes recognised during the year	86	15	101	-
	a) re-endorsements	-	-	-	-
	b) due to change in accounting standards	-	-	-	-
	c) other	86	15	101	-
2.2	New taxes or increases in tax rates	-	-	-	-
2.3	Other increases	-	-	-	-
3.	**Decreases**	**-**	**-**	**-**	**49**
3.1	Deferred taxes cancelled during the year	-	-	-	49
	a) re-endorsements	-	-	-	49
	b) due to change in accounting standards	-	-	-	-
	c) other	-	-	-	-
3.2	Decreases in tax rates	-	-	-	-

3.3	Other decreases	-	-	-	-
4.	**Final amount**			**119**	**18**

13.7 Other information

Breakdown of current tax assets

		31.12.2010	31.12.2009
1.	Advance payment of IRES – IRAP – VAT taxes	19,303	15,904
2.	Advance payment of stamp duty, withholding tax on interest	8,533	9,866
3.	Withholding tax paid	166	145
4.	Other current tax assets	-	-
	Total	**28,002**	**25,915**

Breakdown of current tax liabilities

		31.12.2010	31.12.2009
1.	Liabilities for direct taxes	10,877	19,382
2.	Indirect taxes	33	14
3.	Withholding tax at source to be paid	-	-
4.	Other current tax liabilities	307	256
	Total	**11,217**	**19,652**

Section 14 – Non-current assets and discontinued operations and associated liabilities – Item 140 under assets and Item 90 under liabilities

This section has not been completed.

SECTION 15 – Other assets – Item 150

15.1 Other assets: breakdown

	31.12.2010	31.12.2009
1. Unprocessed transactions with branches	-	-
2. Deposits	137	147
3. Work in progress	30,285	37,994
4. Various outstanding items (items waiting final allocation)	920	750
5. Income accrued and due to be received	6,529	6,053
6. Cash items in hand	110	259
7. Accruals and deferrals not reported	571	388
8. Expenditure on third party assets	4,568	5,060
Total	**43,120**	**50,651**

Liabilities

SECTION 1 – Due to banks – Item 10

1.1 Due to banks: breakdown by type

Type of transaction/Amounts		31.12.2010	31.12.2009
1.	**Due to central banks**	**90,071**	**-**
2.	**Due to banks**	**448,667**	**274,484**
2.1	Current accounts and demand deposits	46,645	51,023
2.2	Fixed-term deposits	366,473	223,461
2.3	Loans	35,546	-
	2.3.1 Repurchase agreements	-	-
	2.3.2 Other	35,546	-
2.4	Debts for commitments to repurchase own equity instruments	-	-
2.5	Other amounts due	3	-
	Total	**538,738**	**274,484**
	Fair value	**538,738**	**274,484**

SECTION 2 – Due to customers – Item 20

2.1 Due to customers: breakdown by type

Type of transaction/Amounts	**31.12.2010**	**31.12.2009**
1. Current accounts and demand deposits	1,917,241	1,848,424
2. Fixed-term deposits	6,434	1,444
3. Loans	81,529	101,218
3.1 Repurchase agreements	81,529	101,218
3.2 Other	-	-
4. Debts for commitments to repurchase own equity instruments	-	-
5. Other amounts due	172,668	246,301
Total	**2,177,872**	**2,197,387**
Fair value	**2,177,872**	**2,197,387**

SECTION 3 – Outstanding securities – Item 30

3.1 Outstanding securities: breakdown by type

Type of security/Amounts	31.12.2010				31.12.2009			
	Book value	*Fair value*			Book value	*Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,215,537	-	1,215,537	-	1,469,089	-	1,469,089	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	1,215,537	-	1,215,537	-	1,469,089	-	1,469,089	-
2. Other securities	2,629	-	-	2,629	63,993	-	60,207	3.786
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Other	2,629	-	-	2,629	63,993	-	60,207	3.786
Total	**1,218,166**	**-**	**1,215,537**	**2,629**	**1,533,082**	**-**	**1,529,296**	**3,786**

SECTION 4 – Financial trading liabilities – Item 40

4.1 Financial liabilities held for trading: breakdown by type

Type of transaction/Amounts	31.12.2010					31.12.2009				
	FCV	FV			FV*	FCV	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Cash liabilities										
1. Due to banks	-	-	-	-	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-	-	-	-	-
3. Debt securities	-	-	-	-	-	-	-	-	-	-
3.1 Bonds	-	-	-	-	-	-	-	-	-	-
3.1.1 Structured	-	-	-	-	X	-	-	-	-	X
3.1.2 Other bonds	-	-	-	-	X	-	-	-	-	X
3.2 Other securities	-	-	-	-	-	-	-	-	-	-
3.2.1 Structured	-	-	-	-	X	-	-	-	-	X
3.2.2 Other	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	129	15,181	-	-	-	117	17,178	-	-
1.1 Trading	X	129	14,812	-	X	X	117	16,835	-	X
1.2 Related to the fair value option	X	-	369	-	X	X	-	343	-	X
1.3 Other	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading	X	-	-	-	X	X	-	-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**129**	**15,181**	**-**	**X**	**X**	**117**	**17,178**	**-**	**X**
Total (A+B)	**X**	**129**	**15,181**	**-**	**X**	**X**	**117**	**17,178**	**-**	**X**

Key

FV = fair value
FV* = fair value calculated excluding value adjustments due to changed issuer credit rating compared with date of issue
FCV = face value or notional value

L1 Level 1
L2 Level 2
L3 Level 3

SECTION 5 – Financial liabilities carried at fair value – Item 50

5.1 Financial liabilities designated as at fair value: breakdown by type

Type of transaction/Amounts	31.12.2010					31.12.2009				
	FCV	FV			FV*	FCV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	3,000	-	2,999	-	-	-	-	-	-	-
1,1 Structured	-	-	-	-	X	-	-	-	-	X
1,2 Other	3,000	-	2,999	-	X	-	-	-	-	X
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2,1 Structured	-	-	-	-	X	-	-	-	-	X
2,2 Other	-	-	-	-	X	-	-	-	-	X
3. Debt securities	590,150	-	602,331	-	-	479,122	-	491,451	-	-
3,1 Structured	50,200	-	51,875	-	X	83,449	-	85,313	-	X
3,2 Other	539,950	-	550,456	-	X	395,673	-	406,138	-	X
Total	**593,150**	**-**	**605,330**	**-**	**605,330**	**479,122**	**-**	**491,451**	**-**	**491,451**

Key

FV = fair value
FV* = fair value calculated excluding value adjustments due to changed issuer credit rating compared with date of issue
FCV = Face value
L1 Level 1
L2 Level 2
L3 Level 3

5.3 Financial liabilities designated as at fair value: annual changes

		Due to banks	Due to customers	Outstanding securities	**Total**
A.	**Opening balance**	**-**	**-**	**491,451**	**491,451**
B.	**Increases**	**2,999**	**-**	**242,410**	**245,409**
B1.	Issues	2,999	-	212,146	215,145
B2.	Sales	-	-	19,629	19,629
B3.	Positive changes in fair value	-	-	4,321	4,321
B4.	Other changes	-	-	6,314	6,314
C.	**Decreases**	**-**	**-**	**131,530**	**131,530**
C1.	Purchases	-	-	22,653	22,653
C2.	Redemptions	-	-	99,157	99,157
C3.	Negative changes in fair value	-	-	2,275	2,275
C4.	Other changes	-	-	7,445	7,445
D.	**Closing balance**	**2,999**	**-**	**602,331**	**605,330**

SECTION 6 – Hedges – Item 60

This section has not been completed.

SECTION 7 - Fair value changes of macro-hedged financial liabilities - Item 70

This section has not been completed.

SECTION 8 – Tax liabilities – Item 80

Reference should be made to section 13 under assets.

SECTION 9 – Liabilities related to assets being disposed of – Item 90

This section has not been completed.

SECTION 10 – Other liabilities – Item 100

10.1 Other liabilities: breakdown

	31.12.2010	31.12.2009
1. Adjustments of non-liquid items related to securities portfolios	50,217	44,954
2. Unprocessed transactions with branches	-	-
3. Amounts available to third parties (banks, suppliers etc.)	14,293	11,050
4. Amounts available to customers	12,611	12,623
5. Work in progress (money orders etc.)	4,690	3,898
6. Other items due to various creditors	7,168	5.179
7. Provisions for risks and charges for guarantees and commitments	1,044	786
8. Accruals and deferrals not reported	1,660	-
9. Withholding tax and taxes due	7,343	5,279
Total	**99.026**	**83,769**

SECTION 11 – Staff severance indemnities – Item 110

11.1 Staff severance indemnities: annual changes

	31.12.2010	31.12.2009
A. Opening balance	**19,987**	**20,899**
B. Increases	**532**	**421**
B1, Provisions during the year	532	421
B2, Other increases	-	-
C. Decreases	**2,651**	**1,333**
C1, Amounts paid	2,398	1,289
C2, Other decreases	253	44
D. Closing balance	**17,868**	**19,987**

With regard to international accounting standards and in observance of indications provided by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee (IFRIC), staff severance indemnity was considered a post-employment benefit determined under a defined benefit plan, and as such its value for accounting purposes is determined by actuarial assessment.
Art. 140 of IAS 19 makes explicit reference to the need to perform assessments taking into account the period in which the services are expected to be provided and, consequently, the need to quantify these in average current value terms.

As envisaged in recent provisions on this subject, introduced jointly by the Italian Order of Actuaries and the Italian Accounting Authority, Assirevi and ABI, for companies with over 50 employees, a different calculation methodology was outlined that can be summarised in the following steps:

- forecast for each employee in service at the time of the assessment of staff severance indemnity already allocated to provisions up to the random payment period;
- calculation for each employee of probable staff severance indemnity payments to be made by the company should the employee terminate employment due to dismissal, resignation, incapacity, death or retirement, also taking into account requests for advances;
- discounting of each probable payment as at the date of assessment.

The year-end assessment of this item was performed by an independent actuary, applying this methodology.

SECTION 12 – Provisions for risks and charges – Item 120

12.1 Provisions for risks and charges: breakdown

Items/Amounts	31.12.2010	31.12.2009
1. Company pension funds	-	-
2. Other provisions for risks and charges	2,618	1,897
2.1 legal disputes	997	1.893
2.2 personnel charges	-	-
2.3 other	1,621	4
Total	**2,618**	**1,897**

It should be pointed out that the item Other provisions for risks and charges includes the allocation of negative shareholders' equity of Voba Invest S.r.l. Details are provided in the Directors' Report.

12.2 Provisions for risks and charges: annual changes

	Pension funds	Other provisions	Total
A. Opening balance	**-**	**1,897**	**1,897**
B. Increases	**-**	**2,093**	**2,093**
B1. Provisions during the year	-	2,093	2,093
B2. Changes due to the elapsing of time	-	-	-
B3. Changes due to discount rate adjustments	-	-	-
B4. Other changes	-	-	-
C. Decreases	**-**	**1,372**	**1,372**
C1. Use during the year	-	1,325	1,325
C2. Changes due to discount rate adjustments	-	-	-
C3. Other changes	-	47	47
D. Closing balance	**-**	**2,618**	**2,618**

SECTION 13 – Redeemable shares – Item 140

This section has not been completed.

SECTION 14 – Company capital – Items 130, 150, 160, 170, 180, 190 and 200

14.1 Share capital and Treasury shares: breakdown

	31.12.2010	31.12.2009
- Number of treasury stocks and shares	34,670,319	34,670,319
- Face value	Euro 2.00	Euro 2.00

14.2 Share capital - number of shares: annual changes

Items/Type	Ordinary	Other
A. Number of shares at beginning of year	**34,670,319**	**-**
- fully paid-up	34,670,319	-
- not fully paid-up	-	-
A.1 Treasury shares (-)	-	-
A.2 Shares outstanding: opening balance	**34,670,319**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against payment:	-	-
- business combinations	-	-
- bond conversions	-	-
- warrant exercises	-	-
- other	-	-
- free of charge:	-	-
- in favour of employees	-	-
- in favour of directors	-	-
- other	-	-
B.2 Disposal of treasury shares	-	-
B.3 Other changes	-	-
C. Decreases	**-**	**-**
C.1 Cancellation	-	-
C.2 Purchase of treasury shares	-	-
C.3 Disposal of companies	-	-
C.4 Other changes	-	-
D. Shares outstanding: closing balance	**34,670,319**	**-**
D.1 Treasury shares (+)	-	-
D.2 Number of shares at end of year	34,670,319	-
- fully paid-up	34,670,319	-
- not fully paid-up	-	-

14.3 Share capital: other information

All ordinary shares outstanding as at 31 December 2010 are fully paid-up. The face value per share is 2 Euro. Shares do not have restrictions or privileges of any kind and each share has equal rights in terms of collection of dividends and redemption of capital. At the date of the financial statements, the Bank does not hold any treasury shares.

14.4 Profit reserves: other information

Items/Components	**31.12.2010**	**31.12.2009**
1. Legal reserve	103,000	100,300
2. Extraordinary reserve	84,692	72,211
3. Reserve to purchase own shares	4,183	4,183
4. Concentration reserve (Law 218 of 30.07.1990)	10,278	10,278
5. Other reserves	30,273	30,519
Total	**232,426**	**217,491**

The item other reserves concerns the positive and negative reserves related to the effects of transition to IAS/IFRS, including the reclassified Provision for general bank risks.

Breakdown of reserves by availability and distribution options

Details of items under shareholders' equity, specifying utilisation options, are provided below as per art. 2427(7-bis) of the Civil Code:

Type/description	Amount	Utilisation options	Available portion	Summary of utilisation in the last three years	
				Loss cover	Other
Capital	69.341	-	-		
Share premium reserve	145,773	A,B,C	145,773		
Profit reserves					
- Legal reserve	103,000	B	-		
- Extraordinary reserve	84,692	A,B,C	84,692		
- Other reserves					
a) Reserve for purchase of treasury shares	4,183	A,B,C	4,183		
b) Share capital increase reserve for stock granting	116	A	116		
c) Specific reserve Law 218/90	10,278	A,B,C	10,278		
d) FTA reserve	30,142	A,B,C	30,142		
e) Merger reserve	15	A,B,C	15		
Valuation reserves					
a) Revaluation reserve	28,388	A,B,C	28,388		
b) IAS revaluation reserve	46,061	A,B	46,061		
c) Negative AFS valuation reserves	(1,767)		(1,767)		
c) Positive AFS valuation reserve	250	(*)	-		
Equity instruments	-		-		
Retained earnings	17,439		-		
Total	**537,911**		**347,881**		

Key

A = for FOC share capital increase
B = as loss cover
C = for distribution to shareholders
(*) this reserve is unavailable pursuant to art. 6, Legislative Decree 38/2005.

It should be mentioned that the regulatory instructions for banks make it mandatory to maintain minimum equity requirements, which place restrictions on options to distribute reserves.

OTHER INFORMATION

1. Guarantees issued and commitments

Transactions	31.12.2010	31.12.2009
1) Financial guarantees issued	28,813	30,809
a) Banks	5,855	4,643
b) Customers	22,958	26,166
2) Commercial guarantees issued	364,946	394,939
a) Banks	569	258
b) Customers	364,377	394,681
3) Irrevocable commitments to disburse funds	135,327	248,729
a) Banks	12,834	6,937
i) certain to be used	12,834	6,937
ii) not certain to be used	-	-
b) Customers	122,493	241,792
i) certain to be used	1,186	20,049
ii) not certain to be used	121,307	221,743
4) Commitments underlying credit derivatives: protection sales	-	-
5) Assets lodged to guarantee minority interest	-	-
6) Other commitments	-	-
Total	**529,086**	**674,477**

2. Assets held to guarantee own liabilities and commitments

Portfolios	31.12.2010	31.12.2009
1. Financial assets held for trading	438,812	243,131
2. Financial assets carried at fair value	-	-
3. Financial assets available for sale	-	-
4. Financial assets held to maturity	-	-
5. Due from banks	-	-
6. Loans to customers	-	-
7. Tangible assets	-	-

4. Management and brokerage on behalf of third parties

Type of service	**Amount**
1. Order execution on behalf of customers	**-**
a) Purchases	-
1. Settled	-
2. Not settled	-
b) Sales	-
1. Settled	-
2. not settled	-
2. portfolio management	**-**
a) Individual	-
b) Collective	-
3. Custody and administration of securities	**7,186,426**
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	2,405,202
1, securities issued by the Bank preparing the financial statements	1,699,562
2, other securities	705,640
b) Third party securities held on deposit (excluding assets under management): other	38,648
1, securities issued by the Bank preparing the financial statements	30,626
2, other securities	8,022
c) Third party securities deposited with third parties	2,423,224
d) own securities deposited with third parties	2,319,352
4. Other transactions	**-**

PART C

INFORMATION ON THE INCOME STATEMENT

SECTION 1 – Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical form	Debt securities	Loans	Other transactions	**31.12.2010**	**31.12.2009**
1. Financial assets held for trading	6,509	-	9,312	15,821	12,720
2. Available-for-sale for sale	807	-	-	807	1,522
3. Financial assets held until maturity	512	-	-	512	534
4. Due from banks	-	590	-	590	988
5. Loans to customers	-	130,004	-	130,004	180.478
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedges	X	X	-	-	-
8. Other assets	X	X	39	39	51
Total	**7,828**	**130,594**	**9,351**	**147,773**	**196,293**

Interest on impaired positions came to 5,142 thousand Euro.

1.3 Interest income and similar income: other information

1.3.1 Interest income on financial assets in foreign currency

	31.12.2010	**31.12.2009**
a) on (foreign) currency assets	1,650	2,402

1.4 Interest expense and similar charges: breakdown

Items/Technical form	Payables	Securities	Other transactions	**31.12.2010**	**31.12.2009**
1. Due to central banks	325	X	-	325	225
2. Due to banks	2,748	X	-	2,748	3,064
3. Due to customers	9,155	X	-	9,155	16,490
4. Outstanding securities	X	13,209	-	13,209	33,761
5. Financial liabilities from trading	-	-	-	-	-
6. Financial liabilities carried at fair value	12	15,881	-	15,893	14,974
7. Other liabilities and funds	X	X	-	-	-
8. Hedges	X	X	-	-	-
Total	**12,240**	**29,090**	**-**	**41,330**	**68,514**

1.6 Interest expense and similar charges: other information

1.6.1 Interest expense on liabilities in currency

	31.12.2010	**31.12.2009**
a) on assets in foreign currency	185	273

SECTION 2 – Commission – Items 40 and 50

2.1 Commission income: breakdown

	Type of service/Amounts	31.12.2010	31.12.2009
a)	**Guarantees issued**	**2,401**	**2,350**
b)	**Credit derivatives**	**-**	**-**
c)	**Management, brokerage and consulting services:**	**16,235**	**13,718**
	1. trading of financial instruments	204	63
	2. currency trading	448	486
	3. portfolio management	-	-
	3.1 individual	-	-
	3.2 collective	-	-
	4. custody and administration of securities	271	267
	5. custodian bank	-	-
	6. placement of securities	7,449	5,592
	7. order receipt and transmission work	1,541	1,265
	8. consulting activities	-	-
	8.1 on investments	-	-
	8.1 on financial structures	-	-
	9. distribution of third party services:	6,322	6,045
	9.1 portfolio management	-	-
	9.1.1 individual	-	-
	9.1.2 collective	-	-
	9.2 insurance products	3,369	3,181
	9.3 other products	2,953	2,864
d)	**Collection and payment services**	**4.968**	**4,722**
e)	**Servicing for securitisation transactions**	**-**	**-**
f)	**Factoring transaction services**	**-**	**-**
g)	**Tax collection services**	**-**	**-**
h)	**Managing multilateral trading systems**	**-**	**-**
i)	**Maintaining and managing current accounts**	**38,792**	**21,470**
j)	**Other services**	**9,242**	**8,857**
	Total	**71,638**	**51,117**

2.2 Commission income: distribution channels for products and services

Channels/Amounts	31.12.2010	31.12.2009
a) At own branches:	**13,771**	**11,637**
1. portfolio management	-	-
2. placement of securities	7,449	5,592
3. third party services and products	6,322	6,045
b) Door-to-door sales:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-
c) Other distribution channels:	**-**	**-**
1. portfolio management	-	-
2. placement of securities	-	-
3. third party services and products	-	-

2.3 Commission expense: breakdown

Services/Amounts	31.12.2010	31.12.2009
a) Guarantees received	**11**	**17**
b) Credit derivatives	**-**	**-**
c) Management and brokerage services:	**822**	**822**
1. trading of financial instruments	530	513
2. currency trading	77	76
3. portfolio management:	-	-
3.1 own	-	-
3.2 on behalf of third parties	-	-
4. custody and administration of securities	215	233
5. placement of financial instruments	-	-
6. external supply of financial instruments, products and services	-	-
d) Collection and payment services	**391**	**445**
e) Other services	**3,303**	**3,504**
1. transmission duties for cash point card details, POS	2,101	1,940
2. transmission duties for the Bank network	561	732
3. other	641	832
Total	**4,527**	**4,788**

SECTION 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Amounts	31.12.2010		31.12.2009	
	Dividends	Income from UCITS	Dividends	Income from UCITS
A. Financial assets held for trading	-	-	123	-
B. Available-for-sale for sale	231	11	330	3,851
C. Financial assets carried *at fair value*	-	-	-	-
D. Equity investments	82	X	74	X
Total	**313**	**11**	**527**	**3,851**

SECTION 4 – Profits (losses) on financial trading activities - Item 80

4.1 Net income from trading activities: breakdown

Transactions/ Income components	Capital Gains (A)	Profit from trading (B)	Capital Losses (C)	Losses from trading (D)	**Net result [(A+B) - (C+D)]**
1. Financial assets for trading	**1,352**	**2,485**	**(2,816)**	**(1,155)**	**(134)**
1.1 Debt securities	1,345	1,568	(2,816)	(991)	(894)
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	7	184	-	(164)	27
1.4 Loans	-	-	-	-	-
1.5 Other	-	733	-	-	733
2. Financial liabilities from trading:	**-**	**-**	**-**	**-**	-
2.1 Debt securities	-	-	-	-	-
2.2 Payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and financial: currency exchange differences	**X**	**X**	**X**	**X**	**-**
4. Derivative instruments	**-**	**14,926**	**(806)**	**(16,682)**	**(2,555)**
4.1 Financial derivatives:	-	14,926	(806)	(16,682)	(2,555)
- on loan instruments and interest rates	-	10,943	(721)	(12,842)	(2,620)
- on equity securities and share indices	-	3,983	(85)	(3,840)	58
- on currency and gold	X	X	X	X	7
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**1,352**	**17,411**	**(3,622)**	**(17,837)**	**(2,689)**

SECTION 5 – Fair value adjustments from hedge accounting – Item 90

This section has not been completed.

SECTION 6 – Profit (Loss) from sale/repurchase – Item 100

6.1 Profit/Loss from sale/repurchase: breakdown

Items/Income components	31.12.2010			31.12.2009		
	Profit	Loss	**Net income**	Profit	Loss	**Net income**
Financial assets						
1. Due from banks	-	-	-	-	-	-
2. Loans to customers	-	(2,058)	(2,058)	-	-	-
3. Financial assets						
financial assets	1,422	(512)	910	1,537	(2,743)	(1,206)
3.1 Debt securities	1,012	(474)	538	417	(410)	7
3.2 Equity securities	410	(38)	372	18	(64)	(46)
3.3 UCITS units	-	-	-	1,102	(2,269)	(1,167)
3.4 Loans	-	-	-	-	-	-
4. Financial assets held						
until maturity	14	-	14	28	-	28
Total assets	**1,436**	**(2,570)**	**(1,134)**	**1,565**	**(2,743)**	**(1,178)**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	516	(7)	509	384	(22)	362
Total Liabilities	**516**	**(7)**	**509**	**384**	**(22)**	**362**

The loss of Euro 2.1 million from loan disposals is from the sale of a portfolio of about 800 non performing loans, as described in the Directors' Report.

SECTION 7 – Net income from financial assets and liabilities measured at fair value – Item 110

7.1 Net value adjustment on financial assets and liabilities valued at fair value: breakdown

Transactions/ Income components	Capital Gains (A)	Income from encashment (B)	Capital Losses (C)	Losses from encashment (D)	**Net result [(A+B) - (C+D)]**
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-
1.2 Equity securities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**2,411**	**1,442**	**(3,736)**	**(30)**	**87**
2.1 Debt securities	2,275	1,442	(3,736)	(30)	(49)
2.2 Due to banks	136	-	-	-	136
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	-
4. Financial and credit derivatives	**135**	22	-	(13)	144
Total	**2,546**	**1,464**	**(3,736)**	**(43)**	**231**

SECTION 8 – Net value adjustments/write-backs due to impairment – Item 130

8.1 Net value adjustments for impairment of receivables: breakdown

Transactions/ Income components	Value adjustments			Write-backs				31.12.2010	31.12.2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		From interest	Other write-backs	From interest	Other write-backs		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-	**-**
- Loans	-	-	-	-	-	-	-	-	**-**
- Debt securities	-	-	-	-	-	-	-	-	**-**
B. Loans to customers	**(21,828)**	**(4,545)**	**(13)**	**7,297**	**10,864**	**-**	**-**	**(8,225)**	**(23,833)**
- Loans	(21,828)	(4,545)	(13)	7,297	10,864	-	-	**(8,225)**	**(23,833)**
- Debt securities	-	-	-	-	-	-	-	-	**-**
C. Total	**(21,828)**	**(4,545)**	**(13)**	**7,297**	**10,864**	**-**	**-**	**(8,225)**	**(23,833)**

Write-backs – from interest includes write-backs due to the passage of time, corresponding to interest matured during the year based on the original interest rate used previously to calculate value adjustments.

8.2 Net adjustments for impairment of available-for-sale financial assets

Transactions/ Income components	Value adjustments		Write-backs		31.12.2010	31.12.2009
	Specific		Specific			
	Write-offs	Other	A	B		
A. Debt securities	-	-	-	-	**-**	**-**
B. Equity securities	-	(84)	X	X	**(84)**	**-**
C. UCITS units	-	-	X	-	**-**	**-**
D. Loans to banks	-	-	-	-	**-**	**-**
E. Loans to customers	-	-	-	-	**-**	**-**
F. Total	**-**	**(84)**	**-**	**-**	**(84)**	**-**

8.4 Net value adjustments for impairment of other financial transactions: breakdown

Transactions/ Income components	Value adjustments			Write-backs				31.12.2010	31.12.2009
	Specific		Portfolio	Specific		Portfolio			
	Write-offs	Other		From interest	Other write-backs	From interest	Other write-backs		
A. Guarantees issued	-	(908)	-	-	650	-	-	**(258)**	**(159)**
B. Credit derivatives	-	-	-	-	-	-	-	**-**	**-**
C. Commitments to disburse funds	-	-	-	-	-	-	-	**-**	**-**
D. Other transactions	-	-	-	-	-	-	-	**-**	**-**
E. Total	**-**	**(908)**	**-**	**-**	**650**	**-**	**-**	**(258)**	**(159)**

SECTION 9 – Administrative costs – Item 150

9.1 Personnel costs: breakdown

Type of cost/Amounts	31.12.2010	31.12.2009
1) Employees	73,895	71,731
a) wages and salaries	50,119	49,049
b) social security costs	13,410	12,822
c) Employee termination indemnities	-	-
d) pension costs	-	5
e) provisions to staff severance indemnities	3,778	3,519
f) provisions for pension fund and similar commitments:	-	-
- to defined contribution plans	-	-
- to defined benefit plans	-	-
g) payments to additional external pension funds:	2,775	2,645
- to defined contribution plans	2,775	2,645
- to defined benefit plans	-	-
h) costs resulting from payment agreements based on own equity instruments	-	-
i) other employee benefits	3,813	3,691
2) Other working staff	26	-
3) Directors and auditors	1,051	787
4) Laid-off personnel	-	-
5) Cost recovery for employees seconded to other companies	-	-
6) Cost reimbursement for third party staff seconded to the company	-	-
Total	**74.972**	**72,518**

It should be pointed out that the accounting policy on treatment of variable bonuses for employees under IAS 19 was changed, as described in the Directors' Report and in the section on accounting policies.
It should also be pointed out that in accordance with the clarification made by the Bank of Italy in their letter dated 16.02.2011, the following reclassification was made in the income statement at 31 December 2009, as described in the section on accounting policies.

9.2 Average number of employees per category

	31.12.2010	31.12.2009
1. **Employees**	**1,027**	**1,015**
a) Senior managers	31	31
b) Line managers	356	340
c) Remaining employees	640	644
2. **Other employees**	-	-
Total	**1,027**	**1,015**

9.5 Other administrative costs: breakdown

	31.12.2010	31.12.2009
1. Equipment and software leasing charges	1,152	1,027
2. Vehicle circulation and travel/accommodation reimbursements	331	396
3. Fees for professional services	3,885	3,279
4. Membership fees	384	378
5. SEC (consortium data processing centre) management costs	7,791	7,202
6. Donations	291	239
7. Property rental	5,004	4,390
8. Stamp duty and tax on stock exchange contracts	6,462	6,414
9. Indirect taxes	475	379
10. Insurance premiums	988	1,011
11. Transport	867	816
12. Security services	910	861
13. Electricity, heating and condominium fees	1,581	1,933
14. Office supplies	1,125	1,036
15. Investigation and commercial information	1,378	1,155
16. Legal fees for credit collection	1,671	1,435
17. Property, furniture and plant maintenance	3,588	3,601
18. Advertising and entertainment	4,039	3,983
19. Office cleaning	1,540	1,511
20. Telephone, postal, data transmission and telex	2,829	2,619
21. Taxes and duties	1,595	1,654
22. Other costs	380	252
Total	**48,266**	**45,571**

SECTION 10 – Net allocations to provisions for risks and charges – Item 160

10.1 Net allocations to provisions for risks and charges: breakdown

	31.12.2010	31.12.2009
a) Provision for civil disputes, revocatory bankruptcy action and other charges	(2,093)	(309)
b) Release of provisions	47	-
Total	**(2,046)**	**(309)**

It should be pointed out that the item comprises the valuation of the investment in Voba Invest S.r.l. for Euro 1,621 thousand and prudent provisions for complaints from customers.

SECTION 11 – Net value adjustments /write-backs of tangible assets – Item 170

11.1 Net adjustments to tangible assets: breakdown

Asset/Income component		Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	**Net result (a+b-c)**
A.	Tangible assets				
A.1	owned	(10,249)	-	-	(10,249)
	- for functional use	(10,249)	-	-	(10,249)
	- for investment	-	-	-	-
A.2	Purchased on a finance lease	-	-	-	-
	- for functional use	-	-	-	-
	- for investment	-	-	-	-
Total		**(10,249)**	**-**	**-**	**(10,249)**

SECTION 12 – Net value adjustments /write-backs of intangible assets – Item 180

12.1 Net value adjustments of intangible assets: breakdown

Asset/Income component	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	**Net result (a+b-c)**
A. Intangible assets				
A.1 owned	(1,827)	-	-	(1,827)
- generated internally by the company	-	-	-	-
- other	(1,827)	-	-	(1,827)
A.2 Purchased on a finance lease	-	-	-	-
Total	**(1,827)**	**-**	**-**	**(1,827)**

SECTION 13 – Other operating income and costs – Item 190

13.1 Other operating costs: breakdown

	31.12.2010	31.12.2009
1. Cash, material and operating differences	(157)	(109)
2. Other costs	(1,436)	(2,221)
Total	**(1,593)**	**(2,330)**

13.2 Other operating income: breakdown

	31.12.2010	31.12.2009
1. Property rental	329	248
2. Recovery of management costs	2,640	2,753
3. Charges to third parties for various recoveries	6,771	7,429
4. Other income	934	4,447
Total	**10,674**	**14,877**

SECTION 14 – Profit (Loss) on equity investments – Item 210

14.1 Profit (Loss) on equity investments: breakdown

Income component/Amounts	**31.12.2010**	**31.12.2009**
A. Income	-	-
1. Revaluations	-	-
2. Profit from disposals	-	-
3. Write-backs	-	-
4. Other income:	-	-
B. Costs	(2,086)	-
1. Write-downs	-	-
2. Value adjustments for impairment	(2,033)	-
3. Loss on disposals	(53)	-
4. Other charges	-	-
Net income	**(2,086)**	**-**

It should be pointed out that the charges are due to the liquidation of Voba Invest Equity S.p.A. and the write-down of Voba Invest S.r.l. Details are contained in the Directors' Report.

SECTION 15 – Net income from measurement at fair value of tangible and intangible assets – Item 220

This section has not been completed.

SECTION 16 – Value adjustments to goodwill – Item 230

This section has not been completed.

SECTION 17 – Profit (Loss) on disposal of investments – Item 240

17.1 Profit (Loss) on disposal of investments: breakdown

Income component/Amounts		31.12.2010	31.12.2009
A.	Property	-	-
	- Profit from disposals	-	-
	- Loss on disposals	-	-
B.	Other assets	(38)	19
	- Profit from disposals	9	36
	- Loss on disposals	(47)	(17)
	Net income	**(38)**	**19**

SECTION 18 – Income tax for the year on current operations – Item 260

18.1 Income taxes for the period: breakdown

Income component/Amounts	IRES	IRAP	31.12.2010	31.12.2009
1. Current taxes (-)	(9,086)	(3,621)	(12,707)	(18,245)
2. Changes in current taxes compared to previous years (+/-)	-	-	-	764
3. Reduction in current taxes for the year (+)	-	-	-	-
4. Changes in deferred tax assets (+/-)	(2,579)	(71)	(2,650)	3,237
5. Changes in deferred tax liabilities (+/-)	203	766	969	(918)
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	**(11,462)**	**(2,926)**	**(14,388)**	**(15,162)**

18.2 Reconciliation between theoretical tax and tax recorded on the financial statements

	IRES	%
IRES tax with application of nominal rate	**8,752**	***27.50%***
Tax-free losses on equity investments	593	*1.86%*
Non-deductible interest expense	447	*1.40%*
Non-deductible costs	941	*2.96%*
Total tax effect of increases	**1,981**	***6.22%***
Dividends	(82)	*-0.26%*
Other decreases	(700)	*-2.20%*
Total tax effect of decreases	**(782)**	***-2.46%***
IRES tax charged to the income statement	**9,951**	***31.26%***

	IRAP	%
IRAP tax with application of nominal rate	**1,151**	***3.62%***
Personnel costs	2,066	*6.49%*
Net value adjustments for impairment	310	*0.97%*
Non-deductible interest expense	60	*0.19%*
Other increases	1,104	*3.47%*
Total tax effect of increases	**3,540**	***11.12%***
Dividends	(6)	*-0.02%*
Other decreases	(248)	*-0.78%*
Total tax effect of decreases	**(254)**	***-0.80%***
IRAP tax charged to the income statement	**4,437**	***13.94%***

Income tax recognised in the income statement totalled Euro 14.4 million, penalised by the negative effect of Euro 0.8 million for the recalculation of prepaid and deferred taxes under the new IRES rate in the provinces of Bolzano (from 3.40% to 4.82%) and Trento (from 2.98% to 3.90%) and the inability to deduct losses pertaining to the subsidiary Voba Invest S.r.l. under a PEX regime.

The standardised tax rate for the period was 42.8%, whereas the comparison figure for 2009 was 38.9%.

IAS 12 Income Taxes states:
- any changes as a result of amendment to tax parameters are recorded to the income statement, except where the changes concern items with a corresponding entry under shareholders' equity, in which case the latter amount is recognised (paragraph 60); 60);
- deferred tax assets and liabilities are reviewed each year to take account of all events occurring during the year. Specifically, changes may occur as a result of changes in the underlying temporary differences (new transactions, amortisation/depreciation or write-down of existing transactions, etc.) both after changes in the physical calculation parameters (amendments to tax regulations, tax rate changes, etc.) (paragraphs 56, 60). 56, 60).

The Bank has recorded
- as a corresponding entry in the income statement of tax assets and liabilities for which changes are recorded – consistent with IAS/IFRS – to the income statement.
- as a corresponding entry under shareholders' equity of tax assets and liabilities for which changes are recorded – consistent with IAS/IFRS – to shareholders' equity (e.g. available-for-sale securities).

As at the end of 2010, the Bank's tax position was as follows:
With regard to VAT and all direct and indirect taxes, no inspections are underway, nor has any significant legal action been taken against the company.

SECTION 19 – Profits (losses) on discontinued operations net of taxes – Item 280

This section has not been completed.

SECTION 20 – Other information

Collection of receivables on behalf of third parties: credit and debit adjustments

		31.12.2010	31.12.2009
a)	**Debit adjustments**	**333,365**	**353,757**
	1. Current accounts	78,273	82,960
	2. Central portfolio	251,206	265,637
	3. Cash on Hand	3,717	4,585
	4. Other accounts	169	575
b)	**Credit adjustments**	**383,582**	**398,711**
	1. Current accounts	132,677	139,300
	2. Assignment of bills and documents	250,054	258,566
	3. Other accounts	851	845

SECTION 21 – Earnings per share

The information required in this section and envisaged by IAS 33 Earnings per share, is only compulsory for listed companies, a category to which the Bank does not belong, as its shares are not listed on a regulated market such as the Stock Exchange.
In any event, it should be noted that the base earnings per share, calculated by dividing net income by the weighted average of ordinary shares in circulation, is 0.50 Euro (2009: 0.74 Euro).
Without considering the impact of dilution, diluted EPS is also assumed to be an equal value.

PART D

Comprehensive income

ANALYTICAL STATEMENT OF COMPREHENSIVE INCOME

	Items	Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the year**	**X**	**X**	**17.439**
	Other income items			
20.	Financial assets available for sale	1,134	(304)	830
	a) changes in fair value	288	(97)	191
	b) reallocations to income statement	846	(207)	639
	- impairment adjustments	84	-	84
	- profit/loss from disposal	762	(207)	555
	c) other changes	-	-	-
30.	Tangible assets			
40.	Intangible assets			
50.	Foreign investment hedges			
	a) changes in fair value			
	b) reallocations to income statement			
	c) other changes			
60.	Cash flow hedges			
	a) changes in fair value			
	b) reallocations to income statement			
	c) other changes			
70.	Currency differences:			
	a) changes in value			
	b) reallocations to income statement			
	c) other changes			
80.	Discontinued operations			
	a) changes in fair value			
	b) reallocations to income statement			
	c) other changes			
90.	Actuarial profit (loss) on defined benefit plans			
100.	Proportion of the equity valuation reserve carried at equity			
	a) changes in fair value			
	b) reallocations to income statement			
	- impairment adjustments			
	- profit/loss from disposal			
	c) other changes			
110.	**Total other income items**	**1,134**	**(304)**	**830**
120.	**Comprehensive income (Item 10+110)**	**1,134**	**(304)**	**18,269**

PART E

INFORMATION ON RISK AND RELATED HEDGING POLICIES

SECTION 1 – CREDIT RISK

QUALITATIVE INFORMATION

1. General considerations

The Bank's credit business offers support in the growth and consolidation of small and medium enterprises and assistance in family financing needs, with the dual aim of providing financial support in the development of local economies in areas covered by the Bank and of becoming a well-known, competent and reliable contact for the customers.

The credit policy adopted during the year was, in keeping with the general principles illustrated previously, marked by responding to the financing needs of private individuals and companies, always with special focus on the risk-yield ratio and the presence of adequate hedging, including via mortgages, particularly in relation to medium-long term exposures.

With regard to private customers, development activity concentrated on mortgages and personal loans, for which the Bank has a complete, wide-ranging product mix. Customers are selected based on their degree of reliability and on their specific financial needs.

For small enterprises, on the other hand, demand concentrated mainly on short-term commitments, characterised by a high degree of risk spreading, whilst for medium and large enterprises the Bank increased its medium-term lending, particularly with regard to loans backed by real guarantees. Pool loans were provided to distribute major loan risks.
Special focus was targeted on the selection of economic sectors, preferring those considered less at risk. In addition, support provided to companies by means of special finance transactions, such as project financing, managed and monitored in terms of progress and release by means of a specific IT procedure.

In general, the credit portfolio is monitored with a view to a broad diversification of economic and geographical business segments (Alto Adige, Trentino, provinces of Belluno, Treviso and Venice), so as to mitigate the effect of any crisis situation. Strict and timely controls were also applied to significant exposures, taking into account all legal and economic ties between the counterparties in order to keep these within limits that do not jeopardise the Bank's equity and economic position in any manner.

In any event, the credit policy is guided by a prudential approach and geared towards establishing key customer relationships of mutual trust and transparency in order to guarantee long-term, customised relations.

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the risk of incurring losses due to default by the counterparty or the risk that a counterparty fails to meet obligations (specifically with regard to failure to repay loans). This is one of the Bank's main risk factors, affecting all financial activities, in particular loans, securities and all committed facilities in relation to guarantees issued or as funding for distribution commitments. Its analysis mainly involves the quality and reliability of debtors and risk concentration.

From an organisational point of view, the process for managing and monitoring credit risk is conducted by special departments and they are governed in such a way as to guarantee performance of the various supervisory controls, as specified in the Regulatory Instructions (Title IV, Chapter 11, Section II). A well-structured internal framework, which is constantly checked to ensure compliance with the risk management policy, is in place to define activities, roles and responsibilities during all phases of the loan process and to ensure the necessary separation between operational and control offices.

On a quarterly basis the Credit Risk Committee analyses and guides all policies for credit risk management based on the outcome of testing and monitoring with the support of detailed reports provided by the risk management department.
Specifically, the committee:
- Checks compliance with limits set under yearly credit strategy;
- Checks trends in overall quality of the loan portfolio;
- Checks the risk profile and main risk parameters of the loan profile;
- Defines what measures to undertake for monitoring and oversight;
- Analyses internal capital pertaining to credit risk, current and future capital absorption, also under adverse conditions;
- Determines any corrections to be made to policies on assessment, management and mitigation of credit risk on the basis of reports submitted by each competent office;
- Makes any proposals needed to revise/update limits and thresholds for credit and concentration risks.

The credit risk monitoring processes comprise:
- Line controls, credit limit excess and unpaid instalment verification performed by branches by means of special procedures and periodic progress report analysis;
- Special monitoring, performed by the Credit Control Service, with the aim of preventing insolvency mainly by taking preventive action to resolve anomalies;
- Audits performed by Area/Internal Auditing Staff as part of their direct and remote auditing duties, for the purpose of verifying credit quality, accuracy of procedures and conscious decision-making by the relevant departments responsible for allocating and managing credit.

Each type of task is supported by appropriate IT procedures. The control and monitoring of non-performing financial assets is handled by the following specific company departments:
- the Credit Control Service reports to the Central Loans Department and is composed of staff based at Central Office with the task of identifying positions that show signs of anomaly, placing them on the watch-list if necessary, and proposing rescheduling or classification as problem loans.
- the Service for Bad Debts forms part of the Legal Section of the Planning and Control Department. This service is composed of in-house legal advisors and administrative-accounting staff and is in charge of performing all the activities related to management of non-performing positions (legal action and out-of-court credit collection).

2.2 Management, measurement and monitoring systems

The first and most important stage in credit risk measurement and management is performed at the time of allocation and during its annual review, particularly during the preliminary process to assess the credit rating of the borrower.

In the Banca Popolare dell'Alto Adige the preliminary stages of the loan set-up process consist in the following:

- collection of assessment elements and all documentation necessary to allow analysis of the potential credit line, also with reference to date from external databases;
- analysis of material collected to reach a final credit rating.

The verifications/analysis performed on the applicant are likewise performed on any guarantors and, in the event of joint signatory, on other signatories.

For private and small business customers, all branches of the Banca Popolare dell'Alto Adige have a distribution rating system, i.e. an IT tool to verify credit ratings during the allocation stage of new credit lines, making use of internal and external IT sources integrated with the computerised credit line file.
A structured and prudent system of powers approved by the Board of Directors defines the limits for granting credit lines starting from the sales network, where authorization limits are not excessively high. For large amounts and/or rating of small amounts granted, the decision lies with the Central Offices (Credit Management, General Management, Internal Loans Committee, Central Credit Committee, Board of Directors).

The decision to allocate credit to companies/institutional customers instead falls to credit managers always within a set limit, or to the central offices mentioned previously if the amounts involved are higher. Credit line proposals for such customers must be accompanied by the Credit Department technical opinion formulated by the Credit Laboratory, a section of the Credit Department providing preliminary procedures, analysis, assessment and the administrative management of credit line files to the network, including special lending and credit, and guaranteeing the observance of both internal and external regulations.

The positions all become subject to periodic review to verify that customer and guarantor are still solvent compared to situations existing at investigation stage, the validity and degree of guarantee cover and the profitability of economic terms applied compared with the risk profile.
The periodic revision can also be carried out automatically whenever a series of requirements are met such as an adequate performance rating.

Among the credit risk monitoring and management tasks, use of the internal rating system is particularly important in allowing credit managers to verify developments in customer credit ratings and quickly identify positions under their control that show a drop in the rating.
The system is based on the calculation of a performance rating for each customer. All customers, both private and corporate are analysed on a monthly basis using performance monitoring methodologies that take into account internal and system date, each customer is assigned a rating on a scale of 12 increasing risk levels (AAA, AA, A, BBB, BB, B, CCC, CC, C, DDD, DD and D+). Corporate customers are divided into small business segments (sole proprietorships, general partnerships and capital companies with turnover under Euro 1.5 million) and Corporate (non-financial partnerships and capital companies with turnover over Euro 1.5 million.

The data managed by the internal rating system is subject to constant analysis and verification by the Risk Management Service, particularly to measure and verify the system's predictive capacity for all customer types by means of appropriate statistical approaches. In 2010 the system proved to have a good, stable capacity to discriminate between "good" and "bad" customers and the capacity to act quickly to change their behaviour and/or economic status/position.

The performance rating is used also when granting credit and revising credit lines and it is one of the essential factors in the framework of authorisation powers. In 2010, it was decided that during the yearly meeting with high-end corporate customers their performance rating would be disclosed to them in order to make consultancy services more systematic, customized and structured and also to determine if the customer has any critical points to counter or potential to develop.

The internal rating system is also used for PD calculation (probability of default) of individual rating classifications, i.e. the likelihood that a position with a given rating becomes insolvent (overdue, restructured, problem or bad debt) within one year. This rating depends only on counterparty characteristics and conduct, and not on the nature or quality of the guarantees granted.

The loans portfolio is also subject to stress testing to assess the potential effects of exceptional changes in one or more risk factors. The simulations consider the effects deriving from negative changes in individual risk factors (sensitivity analysis) or negative changes simultaneously on more than one risk factor (scenario or crash-test analysis).

With regard to exposure and concentration limits, it should be emphasised that the absolute credit limit that can be agreed per business group, individual non-banking counterparty or member of the banking group is established as 10% of the Regulatory Capital. This limit can however be raised at the complete discretion of the Board of Directors. Nonetheless, obligations imposed by current supervisory regulations of the Bank of Italy on maximum individual and group credit limits obviously remain binding. In 2010, significant exposure analysis showed that none of these limits had been exceeded.

All loans portfolio risk analyses and data are produced in a detailed quarterly report issued by the Risk Management Department, submitted for discussion and resolution by Credit Risk Committee, the Risk Committee and then the Board of Directors. The quarterly credit risk report plays an important role as a tool to monitor performance of the Bank's credit business and related risks, and to monitor adherence to objectives and compliance with guidelines defined in the Bank's medium/long-term strategic plan. Amongst other things, it contains the risk index assessments (insolvency probability and estimated losses), the calculation methods adopted and scenario analyses to verify loans portfolio behaviour should unexpected events occur.

The quantitative and qualitative assessments of the breakdown and level of risk of the loans portfolio are therefore used as the Bank's main credit policy guidelines, in the adoption of appropriate operational and control measures for the central and secondary offices.

The internal rating system is intended for management purposes and is not used to calculate the asset requirements on credit and counterparty risk for which, on the other hand, the standard approach is adopted for the purpose of reporting vigilance to the Bank of Italy.

The process to monitor credit is guaranteed over the long-term by an automatic classification system for irregular positions (GDC, Credit Management), which uses an early warning engine to detect any substandard situations, starting from the performance rating and a series of daily indicators. In addition to the usual risk classes for impaired credit established by the supervisory body (past-due, substandard, problem, restructured and non-performing loans), the system also provides two classes for performing customers (under observation and high risk).

2.3 Credit risk mitigation techniques

To mitigate credit risk, the Bank uses all the main forms of guarantees typical of banking activities, both real and personal. The main real guarantees acquired are:
- mortgages on property
- pledges in cash or a variety of securities (treasury securities, bonds, investment funds, assets under management, insurance policies, certificates of deposit, securities in foreign currency, etc.).

With regard to management methods, the above-mentioned guarantees are acquired by means of a standard pledge agreement and by notary deed (for mortgages), and included in the electronic "Credit and Guarantees" procedure to allow their computerised management, control and monitoring.

Personal guarantees are mainly issued by:
individuals in favour of companies in which they are shareholders and/or directors;
- individuals in favour of family members;
credit syndicates in favour of their associate companies/firms (subsequent to agreements stipulated with the Bank).
To a more limited extent, there are also personal guarantees by companies in favour of subsidiaries/associated companies and by financial institutions primarily in favour of companies.

An analysis of guarantee characteristics shows no particular degree of concentration of the various hedging/guarantee formats as the guarantees obtained, except in special cases, are essentially considered as "specific" to each individual position. Furthermore, in general, there are no contractual restrictions that could undermine their legal validity.

To conclude, as verification of the legal and operational effectiveness of the guarantees, an IT/organisational/legal system is used (computerised credit line file) providing online texts and help on the various guarantees in accordance with Italian Bankers' Association (ABI) regulations, including:
- operating procedures governed by national law, pronouncing and establishing regulations on values attributable to guarantees obtained (appraisals, confirmation/verification/monitoring of events with mass land registry searches, real-time online assessment of listed securities, etc.)
verification of signature authenticity on the various guarantees (from company documents, signed in the presence of bank officers, confirmation by notary deed, etc.).

Adoption of the Credit Risk Mitigation methods to calculate the Bank's regulatory capital in accordance with Basel II led to the accurate definition of forecasting, valuation and period revaluation process for property used as mortgage guarantees in order to fully observe the eligibility criteria of such guarantees.

2.4 Impaired financial assets

All debtors for whom particularly serious signals or events occur are defined as impaired, and in turn allocated to one of the following categories according to level of impairment:

- *Non-performing*, inclusion of positions under this category regards bankrupt entities, even if not yet legally confirmed, or in an essentially equivalent position, as a result of which legal or other action is taken to settle or recover the exposure.

Watch-list, positions marked by ongoing irregularities in performance (persistent exceeding of limits, instalments in arrears, zero movement, etc.), system-related (property actions, injunction orders, seizure, mortgage foreclosure, etc.), drastic deterioration in the financial and/or profitability or financial statements position, lack of funds for reimbursement), from which it could be presumed that the debtor is in real difficulty, also with the risk of insolvency, that could however be recovered in a reasonable period of time. Also under this category are all the positions which the Bank considers it recommendable to allocate funds to a provision for risks (loss forecast);

- *Substandard loans*, which, under the regulatory provisions (item 2367 of the Accounting Manual), are positions that:
  - - are loans secured by mortgage guarantees granted for the purchase of homes, property for residential use or leased to the debtor, after issue of the foreclosure notice to the debtor;
  - outstanding loans remaining unpaid for more than 270 days and the total of which (before or after the 270 days) is at least 10% of the entire exposure recorded for that debtor.

- *Restructured*, positions for which the Bank allows amendments to the original contractual terms due to deterioration of the economic-financial condition of the debtor (for instance: rescheduling payment, reduction of debt and/or interest). These generate a loss.

- *Past due*, positions that a continued uncovered situation of greater than 180 days, in accordance with the Bank of Italy standards (Circular no. 263 dated 27/12/2006 as amended). From 2012 the limit shall be reduced to 90 days and the exposure should be higher than 5%.

- *impaired for each transaction*, positions where there are mortgage loans past due for over 90 days.

As already described in the section on organisational aspects, alongside the sales network impaired credit not classed as a bad debt is also monitored by the Credit Control Service, whose mission is essentially insolvency prevention.

Specifically, the steps to be taken for positions classed as watchlist include:
- immediate review of the position and any related positions (guarantor, affiliated, partner, associate companies), updating the relevant documentation and any estimates on guarantees granted;
- review of the terms applied in order to take into account the debtor’s deteriorated risk profile
- verification of the quality and total of guarantees issued;
- set-up of a restructuring plan with the aim of turning around the position and improving guarantees through the definition of a detailed recovery plan submitted to the appropriate internal body for decision.

The Bank’s management of non-performing loans and credit collection is handled by the Service

for Bad Debts, a department which for legal action makes use of specialist internal staff and a specific IT procedure for accounting procedures.
Debt collection activity is proactive and aims to optimise legal proceedings and maximise the financial result. In particular, with regard to assessment of the initiatives to be taken, in-house legal advisors prefer out-of-court action, often with recourse to settlement agreements, which have a positive impact on collection times and the level of costs sustained. Where this solution cannot be carried out in a reasonable timeframe, especially for more significant positions and positions in which a higher level of collection can be expected, external legal advisors are appointed to instigate legal action which always constitutes a valid and fundamental coercive means to the debtor and a tool to resolve litigation. Credit that is minimal, irrecoverable or difficult to collect is generally treated en masse and subjected to disposal transactions without recourse, given that legal action would be considered uneconomic in cost-benefit terms, or is assigned to a specialist credit collection company.

For the financial statements the value adjustments for performing and non-performing loans are calculated according to current regulatory provisions and in a way to obtain a valuation that is as prudent and conservative as possible. In particular, bad debts are subject to analytical assessment to define provisions for expected losses. For each position, and for each relationship within the position, the extent of the expected loss is analytically calculated on the basis of debtor solvency, the type of guarantee, the current status of proceedings taken and, above all, on the value of the guarantees. The estimates are always calculated using maximum prudence criteria and performed or validated by qualified internal personnel, organisationally independent of the credit disbursement/assessment/collection processes. In addition, these always take into account the need to realise the asset immediately and, according to IAS 39, are subject to cash discounting criteria.

The correct implementation of bad debt management and assessment is also ensured by periodic audits performed both internally, by the Area/Internal Auditing Staff, and externally by the Board of Statutory Auditors and independent auditors.

QUANTITATIVE INFORMATION

A. CREDIT QUALITY

A.1 IMPAIRED AND PERFORMING LOAN EXPOSURES: BALANCES, VALUE ADJUSTMENTS, CHANGES, ECONOMIC AND GEOGRAPHIC DISTRIBUTION

A.1.1 Financial exposure distribution by related portfolio and by credit quality (book values)

Portfolio/quality	Non-performing	Problem loans	Restructured exposures	Past due exposures	Other assets	**Total**
1. Financial assets held for trading	-	-	-	-	296,880	**296,880**
2. Available-for-sale for sale	-	-	-	-	27,892	**27,892**
3. Financial assets held until maturity	-	-	-	-	11,552	**11,552**
4. Due from banks	-	-	-	-	50,430	**50,430**
5. Loans to customers	114,483	96,806	8,411	34,198	4,258,757	**4,512,655**
6. Financial assets carried at fair value	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedges	-	-	-	-	-	**-**
Total as at 31/12/2010	**114,483**	**96,806**	**8,411**	**34,198**	**4,645,511**	**4,899,409**
Total as at 31/12/2009	**96,452**	**135,098**	**4,012**	**76,024**	**4,495,946**	**4,807,532**

A.1.2 Loan exposure distribution by related portfolio and by credit quality (gross and net values)

Portfolio/quality	impaired assets			Performing			Total (net exposure)
	Gross exposure	Specific adjustments	Net exposure	Gross exposure	Portfolio adjustments	Net exposure	
1. Financial assets held for trading	-	-	-	X	X	296,880	**296,880**
2. Available-for-sale for sale	-	-	-	27,892	-	27,892	**27,892**
3. Financial assets held until maturity	-	-	-	11,552	-	11,552	**11,552**
4. Due from banks	-	-	-	50,430	-	50,430	**50,430**
5. Loans to customers	342,431	(88,533)	253,898	4,277,812	(19,055)	4,258,757	**4,512,655**
6. Financial assets carried at fair value	-	-	-	X	X	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	-	**-**
8. Hedges	-	-	-	X	X	-	**-**
Total as at 31/12/2010	**342,431**	**(88,533)**	**253,898**	**4,626,456**	**(19,055)**	**4,645,511**	**4,899,409**
Total as at 31/12/2009	**413,121**	**(101,535)**	**311,586**	**4,476,420**	**(19,526)**	**4,495,946**	**4,807,532**

Performing loans that are past due but not impaired.

	Under 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	**Total**
Loans to customers					
- under renegotiation	-	-	-	-	**-**
- other exposures	3,668	3,262	155	12	**7,096**
Total as at 31/12/2010	**3,668**	**3,262**	**155**	**12**	**7,096**

A.1.3 Cash and off-balance sheet loan exposure for amounts due from banks: gross and net values

Exposure type/Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	**Net exposure**
A. CASH EXPOSURE				
a) Non-performing	-	-	X	**-**
b) Problem loans	-	-	X	**-**
c) Restructured exposures	-	-	X	**-**
d) Past due exposures	-	-	X	**-**
e) Other assets	206,108	X	-	**206,108**
TOTAL A	**206,108**	**-**	**-**	**206,108**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	-	-	X	**-**
b) Other	24,126	X	-	**24,126**
TOTAL B	**24,126**	**-**	**-**	**24,126**
Total A+B	**230,234**	**-**	**-**	**230,234**

A.1.6 Cash and off-balance sheet exposure from loans to customers: gross and net values

Exposure type/Values	Gross exposure	Specific value adjustments	Portfolio value adjustments	**Net exposure**
A. CASH EXPOSURE				
a) Non-performing	188,843	(74,360)	X	**114,483**
b) Problem loans	103,968	(7,161)	X	**96,807**
c) Restructured exposures	14,937	(6,526)	X	**8,411**
d) Past due exposures	34,684	(486)	X	**34,198**
e) Other assets	4,434,384	X	(19,055)	**4,415,329**
TOTAL A	**4,776,816**	**(88,533)**	**(19,055)**	**4,669,228**
B. OFF-BALANCE SHEET EXPOSURES				
a) Impaired	8,453	-	X	**8,453**
b) Other	520,698	X	-	**520,698**
TOTAL B	**529,151**	**-**	**-**	**529,151**

A.1.7 Cash exposures from loans to customers: dynamics of gross impaired exposures

	Reasons/Categories	Non-performing	Problem loans	Restructured exposures	Past due exposures
A.	**Gross opening exposure**	**178,351**	**149,164**	**9,154**	**76,452**
	of which: exposures sold and not cancelled	3,931	8,400	**-**	1,184
B.	**Increases**	**73,038**	**64,995**	**5,820**	**62,697**
B.1	Income from performing loan exposure	23,557	39,847	**-**	53,148
B.2	Transfers from other categories of impaired exposures	46,740	23,590	5,270	6,683
B.3	Other increases	2,741	1,558	550	2,866
C.	**Decreases**	**62,546**	**110,191**	**37**	**104,465**
C.1	Transferred to performing loans	-	53,245	-	-
C.2	Write-offs	24,379	179	-	71,010
C.3	Collections	35,369	2,897	37	4,985
C.4	Sale proceeds	236	-	-	-
C.5	Transfers to other categories of impaired exposures	-	53,870	-	28,413
C.6	Other decreases	2,562	-	-	57
D.	**Gross closing exposure**	**188,843**	**103,968**	**14,937**	**34,684**
	of which: exposures sold and not cancelled	3,616	2,704	-	86

A.1.8 Cash exposures from loans to customers: changes in overall value adjustments

	Reasons/Categories	Non-performing	Problem loans	Restructured exposures	Past due exposures
A.	**Overall opening adjustments**	**81,899**	**14,066**	**5,142**	**428**
	of which: exposures sold and not cancelled	-	-	-	-
B.	**Increases**	**23,087**	**3,513**	**1,588**	**58**
B.1	Value adjustments	17,748	3,513	469	58
B.2	Transfers from other categories of impaired exposures	5,339	-	1,119	-
B.3	Other increases	-	-	-	-
C.	**Decreases**	**30,626**	**10,418**	**204**	**-**
C.1	Write-back from valuation	5,699	2,175	167	-
C.2	Write-back from collection	889	1,078	37	-
C.3	Write-offs	21,121	707	-	-
C.4	Transfers to other categories of impaired exposures	-	6,458	-	-
C.5	Other decreases	2,917	-	-	-
D.	**Overall closing adjustments**	**74,360**	**7,161**	**6,526**	**486**
	of which: exposures sold and not cancelled	-	-	-	-

A.2 EXPOSURE CLASSIFICATION BASED ON INTERNAL AND EXTERNAL RATINGS

No supporting information is provided for this section in that the total of externally-rated exposures is minimal.

A.3.2 Loan exposures to guaranteed customers

	Exposure Value	Real guarantees (1)			Personal guarantees (2)									Total (1)+(2)
						Credit derivatives				Credit commitments				
						Other derivatives								
		Property	Securities	Other real guarantees	CLN	Governments and central banks	Other public authorities	Banks	Other entities	Governments and central banks	Other public authorities	Banks	Other entities	
1. Guaranteed cash loan exposures	3,612,230	6,230,705	49,795	20,004	-	-	-	-	-	200	2,905	1,144	968,393	7,273,146
1.1 fully guaranteed	3,249,578	6,069,297	42,666	19,272	-	-	-	-	-	200	2,171	1,144	891,879	7,026,629
- including impaired	226,130	527,232	4,505	3	-	-	-	-	-	-	267	51	46,925	578,983
1.2 part guaranteed	362,652	161,408	7,129	732	-	-	-	-	-	-	734	-	76,514	246,517
- including impaired	18,593	8,039	167	10	-	-	-	-	-	-	-	-	10,164	18,380
2. Off balance sheet guaranteed loan exposures:	163,113	27,776	2,187	1,487	-	-	-	-	-	-	-	694	165,571	197,715
2.1 fully guaranteed	128,024	24,707	1,455	1,417	-	-	-	-	-	-	-	546	154,916	183,041
- including impaired	5,331	4,589	150	14	-	-	-	-	-	-	-	-	2,916	7,669
2.2 part guaranteed	35,089	3,069	732	70	-	-	-	-	-	-	-	148	10,655	14,674
- including impaired	156	-	41	-	-	-	-	-	-	-	-	-	91	132

B. DISTRIBUTION AND CONCENTRATION OF CREDIT EXPOSURE

B.1 Segment distribution of cash and off-balance sheet credit exposure from loans to customers (book value)

Exposures/counterparties	Governments			Other public authorities			Financial institutions			Insurance companies			Non-financial companies			Other entities		
	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments	Net exposure	Specific value adjustments	Portfolio value adjustments
A. Cash exposures																		
A.1 Non-performing	-	-	X	-	-	X	538	(271)	X	-	-	X	85,918	(61,506)	X	28,027	(12,583)	X
A.2 Problem loans	-	-	X	-	-	X	4,451	-	X	-	-	X	78,563	(6,457)	X	13,793	(704)	X
A.3 Restructured exposures	-	-	X	-	-	X	-	-	X	-	-	X	7,728	(6,226)	X	683	(300)	X
A.4 Exposures past due	-	-	X	-	-	X	-	-	X	-	-	X	24,114	(406)	X	10,084	(80)	X
A.5 Other exposures	92,918	X	-	6,326	X	(31)	59,946	X	(169)	43,244	X	-	2,780,019	X	(12,967)	1,432,897	X	(5,888)
Total A	**92,918**	**-**	**-**	**6,326**	**-**	**(31)**	**64,935**	**(271)**	**(169)**	**43,244**	**-**	**-**	**2,976,342**	**(74,595)**	**(12,967)**	**1,485,484**	**(13,667)**	**(5,888)**
B. Off balance sheet exposures																		
B.1 Non-performing	-	-	X	-	-	X	-	-	X	-	-	X	2,967	-	X	75	-	X
B.2 Problem loans	-	-	X	-	-	X	-	-	X	-	-	X	4,982	-	X	322	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	110	-	X	1	-	X
B.5 Other exposures	7,745	X	-	2,868	X	-	17,104	X	-	-	X	-	384,443	X	-	108,539	X	-
Total B	**7,745**	**-**	**-**	**2,868**	**-**	**-**	**17,104**	**-**	**-**	**-**	**-**	**-**	**392,502**	**-**	**-**	**108,937**	**-**	**-**
Total as at 31/12/2010	**100,663**	**-**	**-**	**9,194**	**-**	**(31)**	**82,039**	**(271)**	**(169)**	**43,244**	**-**	**-**	**3,368,844**	**(74,595)**	**(12,967)**	**1,594,421**	**(13,667)**	**(5,888)**
Total as at 31/12/2009	**66,989**	**-**	**-**	**4,424**	**-**	**(9)**	**152,395**	**(276)**	**(247)**	**30,060**	**-**	**(7)**	**3,071,025**	**(79,324)**	**(12,014)**	**1,875,655**	**(21,935)**	**(7,249)**

B.2 Geographic distribution of cash and off-balance sheet credit exposure from loans to customers (book value)

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Non-performing	114,399	(74,157)	84	(204)	-	-	-	-	-	-
A.2 Problem loans	91,732	(6,916)	5,074	(245)	-	-	-	-	-	-
A.3 Restructured exposures	8,411	(6,526)	-	-	-	-	-	-	-	-
A.4 Past due exposures	34,108	(485)	90	(1)	-	-	-	-	-	-
A.5 Other exposure	4,358,274	(18,889)	49,442	(158)	7.613	(9)	-	-	-	-
TOTAL	**4,606,924**	**(106,973)**	**54,690**	**(608)**	**7,613**	**(9)**	**-**	**-**	**-**	**-**
B. Off balance sheet exposures										
B.1 Non-performing	3,042	-	-	-	-	-	-	-	-	-
B.2 Problem loans	5,304	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	111	-	-	-	-	-	-	-	-	-
B.4 Other exposure	509,781	-	10,915	-	2	-	-	-	-	-
TOTAL	**518,238**	**-**	**10,915**	**-**	**2**	**-**	**-**	**-**	**-**	**-**
Total as at 31/12/2010	**5,125,162**	**(106,973)**	**65,605**	**(608)**	**7,615**	**(9)**	**-**	**-**	**-**	**-**
Total as at 31/12/2009	**5,117,934**	**(120,445)**	**78,188**	**(607)**	**4,335**	**(8)**	**89**	**(1)**	**-**	**-**

In the following table further details about the geographic area of Italy are set out:

Exposures/Geographic areas	NORTH WEST ITALY		NORTH EAST ITALY		CENTRAL ITALY		SOUTHERN ITALY AND ISLANDS		TOTAL	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Non-performing	3,230	(909)	109,881	(71,972)	827	(508)	462	(768)	114,400	(74,157)
A.2 Problem loans	3,089	(951)	88,223	(5,947)	286	-	135	(19)	91,733	(6,917)
A.3 Restructured exposures	-	-	8,411	(6,526)	-	-	-	-	8,411	(6,526)
A.4 Past due exposures	5,484	(273)	28,623	(212)	-	-	-	-	34,107	(485)
A.5 Other exposure	187,835	(686)	4,025,294	(17,965)	132,810	(173)	12,336	(65)	4,358,275	(18,889)
TOTAL	**199.638**	**(2.819)**	**4.260.432**	**(102.622)**	**133.923**	**(681)**	**12.933**	**(852)**	**4.606.926**	**(106.974)**
B. Off balance sheet exposures										
B.1 Non-performing	-	-	3,040	-	-	-	2	-	3,042	-
B.2 Problem loans	-	-	5,277	-	27	-	-	-	5,304	-
B.3 Other impaired assets	-	-	111	-	-	-	-	-	111	-
B.4 Other exposure	27,398	-	480,509	-	1,598	-	276	-	509,781	-
TOTAL	**27,398**	**-**	**488,937**	**-**	**1,625**	**-**	**278**	**-**	**518,238**	**-**
Total as at 31/12/2010	**227,036**	**(2,819)**	**4,749,369**	**(102,622)**	**135,548**	**(681)**	**13,211**	**(852)**	**5,125,164**	**(106,974)**
Total as at 31/12/2009	**182,016**	**(2,830)**	**4,838,795**	**(115,480)**	**83,768**	**(1,019)**	**13,355**	**(1,116)**	**5,117,934**	**(120,445)**

B.3 Geographic distribution of cash and off-balance sheet credit exposure from loans to banks (book value)

Exposures/Geographic areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments	Net exposure	Total value adjustments
A. Cash exposures										
A.1 Non-performing	-	-	-	-	-	-	-	-	-	-
A.2 Problem loans	-	-	-	-	-	-	-	-	-	-
A.3 Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4 Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5 Other exposure	107,992	-	87,800	-	9,802	-	470	-	44	-
TOTAL	**107,992**	**-**	**87,800**	**-**	**9,802**	**-**	**470**	**-**	**44**	**-**
B. Off balance sheet exposures										
B.1 Non-performing	-	-	-	-	-	-	-	-	-	-
B.2 Problem loans	-	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4 Other exposure	15,229	-	8,897	-	-	-	-	-	-	-
TOTAL	**15,229**	**-**	**8,897**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total as at 31/12/2010	**123,221**	**-**	**96,697**	**-**	**9,802**	**-**	**470**	**-**	**44**	**-**
Total as at 31/12/2009	**116,845**	**-**	**123,395**	**-**	**6,893**	**-**	**3,610**	**-**	**4,193**	**-**

B.4 Significant exposures

		31.12.2010		**31.12.2009**	
		Book value	weighted value	Book value	weighted value
a)	total	114,321	98,240	117,613	107,189
b)	number	2	2	2	2

2009 was reclassified in accordance with the new rules issued by the Bank of Italy.

C. SECURITISATION AND ASSET DISPOSAL TRANSACTIONS

C.1 SECURITISATION TRANSACTIONS

QUALITATIVE INFORMATION

Voba Finance

The first securitisation transaction was completed in the final months of FY 2006 and involved the disposal without recourse of performing loans, comprising mortgages to individuals, to a newly formed SPV (Voba Finance s.r.l.). To finance loan purchases, Voba Finance s.r.l. collects funds on the capital market through the issue of negotiable securities.
The key objective is to obtain liquidity under favourable conditions. By securitisation the objectives achieved are the opposite of those involved in the issue of bonds. In the second case, capital is traded for the entire duration of the loan as a substantial guarantee to subscribers, whereas in the former case the capital is freed up, turning the previously traded loans into cash.
For the securitisation transaction we undersigned a specific servicing contract with the SPV Voba Finance S.r.l. to coordinate and supervise the management and administration of the securitised mortgages, along with credit collection in the event of default by the debtors. An ad hoc credit control system was arranged for the securitised loans to guarantee constant and timely monitoring.
The agreement calls for the payment of an annual fee for the servicing performed and compensation for every file subject to credit collection.
It should be specified that the role of servicer is provided from within the company structure, i.e. by the Credit Management Service, reporting to the central financial services department. Monthly and quarterly reports are prepared and issued to the counterparties indicated in the servicing agreement, and copied to central management.
With regard to credit risk management, however, reference should be made to the general Bank activities relating to credit management.
Acting not only as originator but also as servicer, we maintain relations with the customers transferred.

The portfolio subject to disposal had the following characteristics:

- SPV:	VOBA Finance S.r.l.
- Bank interest in the SPV:	0%
- Loans disposal date:	30.09.2006
- Type of loans transferred:	Mortgages
- Status of loans transferred:	Performing
- Guarantees on loans transferred:	Mortgages at first to sixth degree
- Geographic area of loans transferred:	Northern Italy
- Business of debtors transferred:	Individuals
- Number of loans transferred:	4,014
- Price of loans transferred:	378,249,095.23 Euro
- Par value of loans transferred:	378,249,095.23 Euro

The transaction arranger, appointed by the originator, was the Milan branch of Natixis S.A, Paris. The appointed rating agency for the transaction was Moody's Italia S.r.l. – Milan and Fitch Ratings of London. Cash manager and calculation agent tasks were performed by Deutsche Bank AG, London, whilst Deutsche Trustee Company Limited, London acts as representative of the noteholders.

The characteristics of the securities issued and listed on the Dublin stock exchange are as follows:

Tranche	Fitch/Moody's rating	Percentage	Total (in Euro)
Class A1	AAA/Aaa	17.00%	64,300,000
Class A2	AAA/Aaa	78.00%	295,050,000
Class B	A/A2	1.50%	5,650,000
Class C	BBB/Baa2	1.50%	5,650,000
Class D (*)	-	2.00%	7,600,000
Total		**100.00%**	**378,250,000**

* Class D subscribed by the Banca Popolare dell'Alto Adige

To guarantee a sufficient liquidity margin for the SPV, we stipulated a subordinated loan agreement with Voba Finance S.r.l. for a total of 30,000,000 Euro as cash reserve, with repayment at market rates.
As an additional guarantee, a swap transaction was arranged with a leading institutional investor. As coupons become payable the Bank collects the average capital return at a market interest rate. The counterparty, on the other hand, guarantees the interest actually collected for that period.
There is a speculative arrangement between the SPV and the same institutional investor. From this, the SPV recognises the actual interest collected for the period and receives the return on the underlying capital at market interest rates, used to pay the coupons on securities issued.
Until the end of 2010 the SPV Voba Finance S.r.l. made full repayment of class A1 securities and part repayment of class A2 securities, as at 31/12/2010 totalling 125 million Euro (Pool factor 0.4233049).

Voba Finance N.2

In the last few months of 2008, Banca Popolare dell'Alto Adige completed a second securitisation transaction involving the disposal without recourse of performing loans, comprising mortgages to individuals and companies, to a newly formed SPV (Voba Finance N.2 S.r.l.). Voba Finance N.2 S.r.l. financed the loans purchase by the issue of negotiable securities fully subscribed by the Bank.
The key objective is to create a wider base for refinancing through the European Central Bank, and the transaction also offers the option of placing securities on the capital market at better future conditions.

For this securitisation transaction a specific servicing contract was signed with the SPV Voba Finance N.2 S.r.l. under the same terms as for the first securitisation.
With regard to credit risk management, however, reference should be made to the general Bank activities relating to credit management.
Acting not only as originator but also as servicer, we maintain relations with the customers transferred.

The portfolio subject to disposal had the following characteristics:

- SPV:	VOBA Finance N.2 S.r.l.
- Bank interest in the SPV:	0%
- Loans disposal date:	01.11.2008

- Type of loans transferred:	Mortgages
- Status of loans transferred:	Performing
- Guarantees on loans transferred:	Mortgages at first to sixth degree
- Geographic area of loans transferred:	Northern Italy
- Business of debtors transferred:	Private individuals and companies
- Number of loans transferred:	1,845
- Price of loans transferred:	304,128,167.83 Euro
- Par value of loans transferred including accruals:	304,128,167.83 Euro

The transaction arranger, appointed by the originator, was BNP Paribas Corporate and Investment Banking, Italy branch, Milan. The rating agency appointed for the transaction was Moody's Italia S.r.l., Milan. The cash manager was Banca Popolare dell'Alto Adige, whilst representative of the noteholders and calculation agent tasks were performed by Securitisation Services S.p.A., Conegliano, Treviso province.

The characteristics of the securities issued and listed on the Luxembourg stock exchange are as follows:

Tranche	Fitch/Moody's rating	Percentage	Total (in Euro)
Class A	AAA/Aaa	80.60%	245,150,000
Class B	A/A2	16.40%	49,900,000
Class C	-	3.00%	9,079,000
Total		**100.00%**	**304,129,000**

All securities issued were subscribed by Banca Popolare dell'Alto Adige and thus the statement of Voba Finance N.2 data is omitted from the following tables in accordance with the instructions in circular 262. It is however pointed out that the collections made during the year amount to 15 thousand Euro of impaired exposures and 28,662 thousand Euro of performing loans (table C.1.7).

A swap transaction was arranged as an additional guarantee.

Until the end of 2010 the SPV Voba Finance S.r.l. made partial repayment of class A1 securities and part repayment of class A securities, as at 31/12/2010 totalling Euro 184 million (Pool factor 0.7512524).

QUANTITATIVE INFORMATION

C.1.1 Exposures from securitisation transactions according to the quality of the underlying assets

Underlying asset quality/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. With third party equity:	**27,134**	**27,134**	**3,850**	**3,850**	**7,600**	**7,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	27,134	27,134	3,850	3,850	7,600	7,600	-	-	-	-	-	-	-	-	-	-	-	-
B. With third party underlying assets:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.2 Exposures from main Bank securitisation transactions according to securitised asset type and exposure type

Securitised asset type/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs
A. Subject to full elimination from the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Subject to partial elimination from the balance sheet	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not eliminated from the balance sheet	**27,134**	**-**	**3,850**	**-**	**7,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Voba Finance S,r,l,																		
- Mortgages	27,134	-	3,850	-	7,600	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Exposures from main third party securitisation transactions according to securitised asset type and exposure type

Underlying asset type/Exposures	Cash exposures						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Book value	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs	Net exposure	Value adjustments/write-backs
HIPO HIPO-11 - Spanish residential mortgages	1,337	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AYT CEAMI - Fondo de titulizacìon de activos	3,515	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Exposures to securitisation broken down by portfolio and type

Exposure / portfolio	Financial assets held for trading	Financial assets - fair value option	Financial assets available for sale	Financial assets held to maturity	Loans	**31.12.2010**	**31.12.2009**
1. Cash exposures	3,515	-	-	1,337	-	4,852	3,249
- Senior	3,515	-	-	1,337	-	4,852	3,249
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-
2. Off-balance-sheet exposure	-	-	-	-	-	-	-
- Senior	-	-	-	-	-	-	-
- Mezzanine	-	-	-	-	-	-	-
- Junior	-	-	-	-	-	-	-

C.1.5 Total amount of the securitised assets underlying junior securities or other forms of loan support

Asset/Value	Traditional securitisations	Synthetic securitisations
A. Underlying Bank assets:	**38,584**	**-**
A.1 Subject to full elimination	-	-
1. Non-performing	-	X
2. Problem loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.2 Subject to partial elimination	-	X
1. Non-performing	-	X
2. Problem loans	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.3 Not eliminated	38,584	-
1. Non-performing	3,616	-
2. Problem loans	2,704	-
3. Restructured exposures	-	-
4. Past due exposures	86	-
5. Other assets	32,178	-
B. Underlying third party assets:	**-**	**-**
B.1 Non-performing	-	-
B.2 Problem loans	-	-
B.3 Restructured exposures	-	-
B.4 Past due exposures	-	-
B.5 Other assets	-	-

C.1.6 Interest in the SPV

Name	Registered office	% interest
Voba Finance S.r.l.	Milan	0%
Voba Finance N.2 S.r.l.	Conegliano (TV)	0%

C.1.7 Servicer assets - securitised credit collections and repayment of SPV-issued securities

SPV	Securitised assets (year-end figure)		Loan collections made in the year		Percentage of securities redeemed (year-end figure)					
					Senior		Mezzanine		Junior	
	Impaired	Performing	Impaired	Performing	impaired assets	Performing assets	impaired assets	Performing assets	impaired assets	Performing assets
Voba Finance S.r.l.	6,320	185,469	119	33,221	-	65.24%	-	-	-	-

C.2 ASSET DISPOSAL TRANSACTIONS

C.2.1 Financial assets sold and not cancelled

Technical/portfolio formats	Financial assets held for trading			- financial assets carried at fair value			Financial assets available for sale			Financial assets held to maturity			Due from banks			Loans to customers			**Total**	
	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	A	B	C	**31.12.2010**	**31.12.2009**
A. Cash assets	44,037	-	-	-	-	-	14,439	-	-	6,407	-	-	-	-	-	191,789	-	-	256,672	284,414
1. Debt securities	44,037	-	-	-	-	-	14,439	-	-	6,407	-	-	-	-	-	-	-	-	64,883	58,360
2. Equity securities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	191,789	-	-	191,789	226,054
B. Derivative instruments	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total as at 31/12/2010	**44,037**	**-**	**-**	**-**	**-**	**-**	**14,439**	**-**	**-**	**6,407**	**-**	**-**	**-**	**-**	**-**	**191,789**	**-**	**-**	**256,672**	
including impaired																**6,406**			**6,406**	
Total as at 31/12/2009	**29,706**	-	-	-	-	-	**19,907**	-	-	**8,747**	-	-	-	-	-	**226,054**	**-**	**-**		**284,414**
including impaired																**8,455**				**8,455**

Key:

A = financial assets sold and cancelled in full (book value)
B = financial assets sold and part cancelled (book value)
C = financial assets sold and part cancelled (full value)

C.2.2 Financial liabilities from financial assets sold but not cancelled

Liability/Asset portfolio	Financial assets held for trading	- financial assets carried at fair value	Financial assets available for sale	Financial assets held to maturity	Due from banks	Loans to customers	**Total**
1. Due to customers	**60,522**	**-**	**14,744**	**6,262**	**-**	**104,045**	**185,573**
a) in relation to assets recognised in full	60,522	-	14,744	6,262	-	104,045	**185,573**
b) in relation to assets recognised in part	-	-	-	-	-	-	**-**
2. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) in relation to assets recognised in full	-	-	-	-	-	-	**-**
b) in relation to assets recognised in part	-	-	-	-	-	-	**-**
Total as at 31/12/2010	**60,522**	**-**	**14,744**	**6,262**	**-**	**104,045**	**185,573**
Total as at 31/12/2009	**72,495**	**-**	**20,509**	**8,214**	**-**	**183,409**	**284,627**

D. CREDIT RISK MEASUREMENT MODELS

The internal status rating system is intended for management purposes and is not used to calculate the asset requirements on credit risk on which, on the other hand, the standard approach is adopted for the purpose of reporting vigilance to the Bank of Italy.

However it is used for calculating expected and unexpected losses in the loan portfolio and for the performance of stress testing that has the purpose of assessing the effects on the portfolio of extraordinary but plausible events.
In particular, the model achieves an estimate of losses using the Monte Carlo method. An unexpected loss (credit risk) is defined as the difference between the maximum potential loss, given a certain confidence gap, and the expected loss, based on a twelve-month time horizon.

The model used is a structural, one-factor asymptotic model that simulates the behaviour of the portfolio according to changes in two classes of variables, one representing the market environment situation, which is common to all counterparties, and the other representing the specific features of individual counterparties.

A few results of stress testing with reference to 31 December 2010 are set out below:

- Expected losses on performing loan portfolio: 0.314% of the performing loan portfolio
- Unexpected losses on performing loan portfolio: 1.853% of the performing loan portfolio (99.9% confidence)

SECTION 2 – MARKET RISK

2.1 INTEREST RATE RISK AND PRICING RISK – TRADING PORTFOLIO ADEQUACY

QUALITATIVE INFORMATION

A. General considerations

Interest rate risk represents the risk relating to the possibility that the Bank suffers losses on financial assets held for trading as a result of adverse market rate performance.

Pricing risk represents the risk connected with changes in value of positions classed as financial assets held for trading, arising from market price fluctuations. It can be broken down as follows:
- generic risk: price change in an equity security following fluctuations in the reference stock market;
- specific risk: market price change in a specific equity security as a result of a change in market expectations regarding the financial solidity or prospects of the issuer.

The trading portfolio is managed in a prudent manner geared towards limiting market risk and in compliance with the strategic indications and the operating limits set out in the Risk Policy of the Finance Department and in the annual Operating Plan.

The main source of interest rate risk is formed by the bond securities held; trading is intended to produce absolute returns to maximise yields on the portfolio in compliance with the Value at Risk (VaR) and Stop-Loss as defined in the Policy.
Interest rate risk is taken on by the Finance Department, which uses mainly listed derivative instruments (futures, IRS) as hedges.

The main source of pricing risk consists of UCITS shares reclassified under financial assets held for trading and of derivative instruments connected to stock indices. In this case too, the strategy pursued is oriented towards the prudent management of assets, and thus towards the conscious assumption of risks. Value at Risk and Stop-Loss price ceilings also apply to pricing risk.

Assets in the portfolio for trading under supervision have not undergone any significant changes since the previous year.

B. Interest rate risk and pricing risk management processes and measurement methods

The internal market risk control and management processes (interest rate and pricing) are contained in the Risk Policy of the Finance Department, subject to periodic review and consideration by the Board of Directors.

Risk monitoring is carried out by the Risk management department that produces a daily and monthly report subject to scrutiny by the Internal finance Committee (weekly) and by the Finance Committee (monthly). The latter sets the risk management policy in the context of the strategy set out in the annual Operating Plan.

With regard to the processes and methods of market risk monitoring and management, the indicators monitored and their related limits are provided below, together with first and second level internal audit processes on overall trading portfolio transactions.
In general, the limits are classified according to the various types of market risk (interest rate, price and pricing), but are in any event managed within a single framework based on similar logic.

The authorisation structure for finance operations is based on four levels:
- Operating limits
- Position limits: credit risk and concentration
- Stop-Loss limits
- Value-at-Risk (VaR) limits.

The <u>operating limits</u> structure uses the following risk indicators:
- interest rate risk: sensitivity (change in profit or loss as a result of a change of one percentage point in the reference curve, with parallel shift);
- equity risk: delta equivalent (market value of share funds and cash equivalent position for equity derivatives);
- maximum amount invested: equivalent value of shares/funds at the initial price to guarantee compliance with the average equity assigned.

<u>Position limits</u> are structured on:
- credit risk assumption limits: overall limits are established on rating class exposures, particularly below the investment grade range;

concentration limits on each issuer/issue, with an increasing degree of constraint as the issuer rating class deteriorates;
- country limits: limits are provided on the maximum exposure allowed per individual country according to the rating of the latter.

Stop-Loss limits are monitored on cumulative results achieved and not achieved since the start of the month and over the last 5 business days, backed by cumulative monitoring at the start of the year, via reports to the relevant decision-making bodies. Limits are based on the maximum level of loss deemed acceptable in the reference period in accordance with Bank operations (Risk Capital) and established in the annual Operating Plan. Risk Capital is broken down in turn across the various asset classes that make up the portfolio.

With regard to <u>VaR limits</u>, they are defined as the maximum amount that can be lost with reference to a specific time horizon and to a specific level of confidence. VaR is a single measurement indicator applicable to all types of market trading and all financial instruments, thus allowing a comparison of risk figures calculated from both a time and daily profitability viewpoint. The calculation approach used is that of Historic Simulation, with the significant addition of exponential weighting of the so-called scenarios (decay factor equal to 0.97), thus achieving the goal of making the recent past more significant that the remote past. The historic series of risk factors have a length equal to 256 working days. The VaR is thus calculated with a 99% confidence gap and a 10 working day horizon.

The approach is implemented on the Murex computer platform that, from 2009, forms the integrated computer cash management system at the Bank.

The responsibility for daily checks on operating limits, on positions, on Stop-Loss and VaR is entrusted to the Risk management department which, in order to avoid and prevent any possible exceeding of authorised risk limits, thanks to a standardised system of daily reporting, checking and testing approximations on reaching thresholds.

VaR models are intended for management purposes and are not used to calculate the asset requirements on credit risk on which, on the other hand, the standard approach for the purpose of reporting vigilance to the Bank of Italy is adopted.

Illustrated below in quantitative terms are the changes in VaR on the trading portfolio of Banca Popolare dell'Alto Adige.

Total portfolio VaR
In 2010, the 10-day 99% Value-at-Risk (VaR) of Banca Popolare dell'Alto Adige was, on average, approximately 2.97 million Euro. As at 31 December 2010 the VaR was 1.91 million Euro.

Interest rate risk VaR
During 2010 the average VaR was approximately 0.63 million Euro. As at 31 December 2010 the interest rate risk VaR was 0.73 million Euro.

Share portfolio VaR (price risk)
The VaR on the Bank's Share Portfolio in 2010 recorded an average value of 2.33 million Euro. As at 31 December 2010 the share VaR was 1.18 million Euro.

Stress Test
The test described previously was the risk level response borne by the Bank with respect to macroeconomic scenarios defined in the VaR calculation model. Nevertheless the capacity of a bank to respond to particularly adverse events can be tested by simulating certain stress situations. For this reason, the monitoring system subjects the portfolio to strongly adverse assumptions to assess the capacity of the equity to cover certain events.

Three particular scenarios are considered:
- Upward parallel shift in the interest rate curve by 100 base points, at the same time as a 20% stock market drop: this tests the solidity of the Bank in the event of particularly problematic market developments. As at 31 December 2010, using this scenario, losses of approximately 18.3 million Euro would have been recorded;
- Upward parallel shift in the interest rate curve by 150 base points, at the same time as a 25% stock market drop: As at 31 December 2010, using this scenario, losses of approximately 25.7

million Euro would have been recorded.

- Upward parallel shift in the interest rate curve by 200 base points, at the same time as a 30% stock market drop: As at 31 December 2010, using this scenario, losses of approximately 33.2 million Euro would have been recorded.

QUANTITATIVE INFORMATION

1. Trading portfolio adequacy: break-down of cash financial assets and liabilities and financial derivatives by residual maturity (date of re-pricing)

Currency 242 Euro

	Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1.	***Cash assets***	**-**	**71,677**	**58,702**	**49**	**81,391**	**15,432**	**4,800**	**-**
1.1	Debt securities	-	71,677	58,702	49	81,391	15,432	4,800	-
	- with early redemption option	-	7,331	37,378	-	9,359	-	-	-
	- other	-	64,346	21,324	49	72,032	15,432	4,800	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**44,804**	**15,718**	**-**	**-**	**-**	**-**	**-**
2.1	Borrowing repurchase agreements	-	44,804	15,718	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**12,932**	**21,239**	**25,344**	**(33,523)**	**(10,000)**	**(15,000)**	**-**
3.1	With underlying security	-	(7,359)	899	5	6,477	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	(7,359)	899	5	6,477	-	-	-
	+ Long positions	-	4,184	1,188	5	6,834	-	-	-
	+ Short positions	-	(11,543)	(289)	-	(357)	-	-	-
3.2	Without underlying security	-	20,291	20,340	25,339	(40,000)	(10,000)	(15,000)	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	20,291	20,340	25,339	(40,000)	(10,000)	(15,000)	-
	+ Long positions	19,528	172,262	210,465	33,983	69,153	58,998	11,448	-
	+ Short positions	(19,528)	(151,971)	(190,125)	(8,644)	(109,153)	(68,998)	(26,448)	-

Currency 001 US Dollar

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**-**	**-**	**-**	**-**	**5**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	5	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	5	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Borrowing repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(439)**	**(337)**	**337**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(439)	(337)	337	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(439)	(337)	337	-	-	-	-
+ Long positions	-	5.471	225	-	-	-	-	-
+ Short positions	-	(5,910)	(562)	337	-	-	-	-

Currency 002 GB Pound

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Borrowing repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**96**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	96	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	96	-	-	-	-	-	-
+ Long positions	-	299	-	-	-	-	-	-
+ Short positions	-	(203)	-	-	-	-	-	-

Currency 071 Japanese Yen

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Borrowing repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(12)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(12)	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(12)	-	-	-	-	-	-
+ Long positions	-	2,039	-	-	-	-	-	-
+ Short positions	-	(2,051)	-	-	-	-	-	-

Currency Other

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-		-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Borrowing repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**85**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	85	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	85	-	-	-	-	-	-
+ Long positions	-	192	-	-	-	-	-	-
+ Short positions	-	(107)	-	-	-	-	-	-

2. Trading portfolio adequacy: analysis of the exposures in equities and share indexes by leading countries of the listed market

Type of transaction/ stock index	Listed			Unlisted
	Germany			
A. Equity securities	-	-	-	-
- Long positions	-	-	-	-
- Short positions	-	-	-	-
B. Equity share transfers not yet settled	-	-	-	-
- Long positions	-	-	-	-
- Short positions	-	-	-	-
C. Other equity share derivatives	3,912	-	-	-
- Long positions	3,912	-	-	-
- Short positions	-	-	-	-
D. Share index derivatives	-	-	-	-
- Long positions	-	-	-	-
- Short positions	-	-	-	-

2.2 INTEREST RATE AND PRICING RISK – BANKING BOOK

QUALITATIVE INFORMATION

A. General considerations, interest rate risk and pricing risk management processes and measurement methods

The Banking Book is the series of Bank trading operations in relation to the maturities conversion of all balance sheet, treasury and hedging assets and liabilities. Changes in market rate structure can have adverse effects on the Banking Book (interest margin and capital) and are therefore a source of risk.

The Bank's Banking Book management and investment strategies are in keeping with optimisation of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank's investment policy is therefore focused on optimising interest rate margins and minimising their volatility (Asset & Liability Management).

The guidelines and framework for managing interest rate risk are also contained in the finance risk policy. The risk management department, taking advantage of the processing using the ERMAS computer system, calculates the sensitivity to interest margins each month and of the Bank's assets to previously set changes in the rate curve (gap analysis) in a static manner i.e., on the transactions underway at the date in question (end of month). For realistic treatment of core deposits (current accounts in Euro and in foreign currency and savings accounts), the analysis uses an econometric model with parameters based on their historical trends.

The results of the analysis, together with the forecasts of changes in rate made by the Finance and Treasury departments, are contained in the monthly ALM Report and contribute to defining the interest rate risk hedging policy established by the Finance Committee. They are discussed by the finance committee on a monthly basis. The Treasury department is thus entrusted with the practical application of the decisions made.

With a view to strengthening safeguards against interest rate risk, 2 primary indicators were determined, one on the interest rate margin and the other on the current value of the assets, for which specific limits were set.

The measurement of Banking Book sensitivity to changes in the interest rate structure indicates an average asset-sensitive profile, i.e. exposure to interest rate risk only if market rates increase.

The banking portfolio price risk only refers to the variations in market price of the assets classed as available for sale. Concerning these assets, methods to measure and monitor price risk are based on the VaR calculation model described above.

B. Fair value asset hedges

The Bank sets up specific hedging transactions on bond loans issued at fixed or structured rates, for the accounting picture, which it takes advantage of as provided by the Fair Value Option (FVO). The underlying hedging strategy is intended to reduce the term of the liability that is intended to produce certainty in the cost of structured issues.
In the course of 2010 the liabilities defined above were systematically hedged by means of (unlisted) OTC Interest Rate Swap derivative contracts.

C. Cash flow hedging

No cash flow hedging was carried out during the course of the year.

QUANTITATIVE INFORMATION

1. Banking Book: distribution by residual life (re-pricing date) of financial assets and liabilities

Currency 242 Euro

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**1,574,819**	**2,243,863**	**80,467**	**120,229**	**304,621**	**100,568**	**51,768**	**-**
1.1 Debt securities	12,400	22,314	9,409	3,030	9,205	26,269	-	-
- with early redemption option	-	2,650	-	2,003	-	-	-	-
- other	12,400	19,664	9,409	1,027	9,205	26,269	-	-
1.2 Loans to banks	1,823	26,361	-		-	-	-	-
1.3 Loans to customers	1,560,596	2,195,188	71,058	117,199	295,416	74,299	51,768	-
- current accounts	1,282,368	22,174	12,339	34,502	107,936	1,211	1,212	-
- other loans	278,228	2,173,014	58,719	82,697	187,480	73,088	50,556	-
- with early redemption option	239,795	2,022,627	31,157	44,435	125,787	72,967	50.522	-
- other	38,433	150,387	27,562	38,262	61,693	121	34	-
2. Cash liabilities	**2,005,824**	**1,445,943**	**345,925**	**60,650**	**419,535**	**11,894**	**104,045**	**-**
2.1 Due to customers	1,960,011	16,298	12,568	4,339	19	17	104,045	-
- current accounts	1,633,071	2,449	71	3,244	19	17	-	-
- other payables	326,940	13,849	12,497	1,095	-	-	104,045	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	326,940	13,849	12,497	1,095	-	-	104,045	-
2.2 Due to banks	45.742	376,445	7,771	9,024	36,026	1,014	-	-
- current accounts	19,234	-	-	-	-	-	-	-
- other payables	26,508	376,445	7,771	9,024	36,026	1,014	-	-
2.3 Debt securities	71	1,053,200	325,586	47,287	383,490	10,863	-	-
- with early redemption option	-	834,382	278,111	34,144	268,088	-	-	-
- other	71	218,818	47,475	13,143	115,402	10,863	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**(49,500)**	**(281,300)**	**(124,560)**	**13,500**	**430,212**	**11,648**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	(49,500)	(281,300)	(124,560)	13,500	430,212	11,648	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	(49,500)	(281,300)	(124,560)	13,500	430,212	11,648	-	-
+ Long positions	5,000	54,500	57,130	13,500	430,212	11,648	-	-
+ Short positions	(54,500)	(335,800)	(181,690)	-	-	-	-	-

Currency 001 US Dollar

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**5,682**	**14,690**	**579**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	5,679	11,740	-	-	-	-	-	-
1.3 Loans to customers	3	2,950	579	-	-	-	-	-
- current accounts	3	-	-	-	-	-	-	-
- other loans	-	2,950	579	-	-	-	-	-
- with early redemption option	-	2,950	579	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**12,544**	**7,500**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	12,434	-	-	-	-	-	-	-
- current accounts	8,897	-	-	-	-	-	-	-
- other payables	3,537	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	3,537	-	-	-	-	-	-	-
2.2 Due to banks	110	7,500	-	-	-	-	-	-
- current accounts	110	-	-	-	-	-	-	
- other payables	-	7,500	-	-	-	-	-	
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	
- other	-	-	-	-	-	-	-	
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	5,125	-	-	-	-	-	-
+ Short positions	-	(5,125)	-	-	-	-	-	-

Currency 003 Swiss Franc

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**10,895**	**16,429**	**17,801**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	3,248	-	-	-	-	-	-	-
1.3 Loans to customers	7,647	16,429	17,801	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	7,647	16,429	17,801	-	-	-	-	-
- with early redemption option	7,647	16,429	17,801	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**6,062**	**45,034**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	6,062	-	-	-	-	-	-	-
- current accounts	5,390	-	-	-	-	-	-	-
- other payables	672	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	672	-	-	-	-	-	-	-
2.2 Due to banks	-	45,034	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	
- other payables	-	45,034	-	-	-	-	-	
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	
- other	-	-	-	-	-	-	-	
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	11,996	-	-	-	-	-	-
+ Short positions	-	(11,996)	-	-	-	-	-	-

Currency 071 Japanese Yen

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**890**	**6,081**	**5,118**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	486	-	-	-	-	-	-	-
1.3 Loans to customers	404	6,081	5,118	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	404	6,081	5,118	-	-	-	-	-
- with early redemption option	404	6,081	5,118	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**2,655**	**10,585**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	354	-	-	-	-	-	-	-
- current accounts	354	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	2,301	10,585	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other payables	2,301	10,585	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(18)**	**18**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(18)	18	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(18)	18	-	-	-	-	-
+ Long positions	-	-	18	-	-	-	-	-
+ Short positions	-	(18)	-	-	-	-	-	-

Currency Other

Type/Residual life	On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Life Unlimited
1. Cash assets	**894**	**226**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	894	199	-	-	-	-	-	-
1.3 Loans to customers	-	27	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	27	-	-	-	-	-	-
- with early redemption option	-	27	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**1,203**	**185**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	1,203	-	-	-	-	-	-	-
- current accounts	1,167	-	-	-	-	-	-	-
- other payables	36	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	36	-	-	-	-	-	-	-
2.2 Due to banks	-	185	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	
- other payables	-	185	-	-	-	-	-	
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	
- other	-	-	-	-	-	-	-	
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

2.3 EXCHANGE RISK

QUALITATIVE INFORMATION

A. General considerations, exchange risk management processes and measurement methods

Exchange risk represents the risk connected with a change in value of positions in foreign currency as a result of unexpected changes in currency cross rates.
Support for business activities in foreign currency and foreign securities trading are the Bank's main generating source of exchange risk.
Automatic network systems linked to a single position keeping system allow the Treasury Service to perform constant, real time monitoring of currency cash flows transmitted immediately to the Forex interbank market.
The Treasury IT system (Murex) then permits efficient flow management of spot, futures and options within a pre-established framework of operating limits, defined in the Risks Policy by the Finance Department and in the annual Operating Plan.
All positions in currency are revalued on a daily basis to the reference exchange rates of the European Central Bank and constitute the economic contribution from exchange activities to general Bank profitability.

B. Exchange risk hedging

Exposure to foreign exchange risk is limited by the extremely prudent attitude of the Bank, which unfolds in a highly circumscribed currency trading activity.

The exchange risk generated from loans and deposits is systematically hedged in real time, with the hedge transaction and/or investment in the same currency.

QUANTITATIVE INFORMATION

1. Currency distribution of assets, liabilities and derivatives

Items		Currency					
		US dollar	GB pound	Yen	Canadian dollar	Swiss franc	Other currencies
A.	**Financial assets**	**20,958**	**477**	**13,229**	**40**	**50,444**	**603**
A.1	Debt securities	5	-	-	-	-	-
A.2	Equity securities	-	-	-	-	-	-
A.3	Loans to banks	17,419	477	487	13	3,248	603
A.4	Loans to customers	3,534	-	12,742	27	47,196	-
A.5	Other financial assets	-	-	-	-	-	-
B.	**Other assets**	**194**	**83**	**19**	**34**	**311**	**193**
C.	**Financial liabilities**	**20,044**	**594**	**13,240**	**60**	**51,097**	**734**
C0.1	Due to banks	7,609	-	12,886	-	45,035	185
C0.2	Due to customers	12,435	594	354	60	6,062	549
C0.3	Debt securities	-	-	-	-	-	-
C0.4	Other financial liabilities	-	-	-	-	-	-
D.	**Other liabilities**	**-**	**-**	**-**	**-**	**-**	**-**
E.	**Financial derivatives**	**(1,113)**	**96**	**(11)**	**-**	**1**	**83**
	- Options	-	-	-	-	-	-
	+ long positions	-	-	-	-	-	-
	+ short positions	-	-	-	-	-	-
	- Other derivatives	(1,113)	96	(11)	-	1	83
	+ long positions	5,696	299	2,040	-	107	84
	+ short positions	(6,809)	(203)	(2,051)	-	(106)	(1)
Total assets		**26,848**	**859**	**15,288**	**74**	**50,862**	**880**
Total Liabilities		**26,853**	**797**	**15,291**	**60**	**51,203**	**735**
Difference (+/-)		**(5)**	**62**	**(3)**	**14**	**(341)**	**145**

As seen from the table, since they show no significant imbalance, the exchange positions in the different currencies do not result in the generation of significant effects on either the Bank’s earnings margin or on shareholders’ equity.

2.4 DERIVATIVE FINANCIAL INSTRUMENTS

A. FINANCIAL DERIVATIVES

A.1 Trading portfolio adequacy: end of year and interim notional values

Underlying assets / Derivative type	31.12.2010		31.12.2009	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	570,525	-	1,196,162	17,510
a) Options	-	-	-	-
b) Swaps	570,525	-	1,191,225	-
c) Forward	-	-	1,187	10
d) Futures	-	-	3,750	17,500
e) Other	-	-	-	-
2. Equity securities and share indexes	-	3,912	-	5,201
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	3,912	-	5,201
e) Other	-	-	-	-
3. Currency and gold	7,927	-	18,063	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	7,927	-	18,063	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other assets	-	-	-	-
Total	**578,452**	**3,912**	**1,214,225**	**22,711**
Average values	**754,850**	**28,039**	**903,594**	**24,177**

A.2 Banking Book: end of year and interim notional values

A.2.2 Other derivatives

Underlying assets / Derivative type	31.12.2010		31.12.2009	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	597,528	-	494,255	-
a) Options	25,538	-	31,500	-
b) Swaps	571,990	-	462,755	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and share indexes	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
3. Currency and gold	-	-	-	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other assets	-	-	-	-
Total	**597,528**	**-**	**494,255**	**-**
Average values	**595,597**	**-**	**460,909**	**-**

A.3 Financial derivatives: positive gross fair value – breakdown by product

Underlying assets / Derivative type	Positive fair value			
	31.12.2010		31.12.2009	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
A. Trading portfolio adequacy	12,822	-	21,152	-
a) Options	-	-	-	-
b) Interest rate swap	12,670	-	21,019	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	152	-	133	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking portfolio - hedges	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio – other derivatives	11,235	-	11,256	-
a) Options	294	-	592	-
b) Interest rate swap	10,941	-	10,664	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**24,057**	**-**	**32,408**	**-**

A.4 Financial derivatives: negative gross fair value – breakdown by product

Underlying assets / Derivative type	Negative fair value			
	31.12.2010		31.12.2009	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
A. Trading portfolio adequacy	14,930	-	16,937	-
a) Options	-	-	-	-
b) Interest rate swap	14,801	-	16,820	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	129	-	117	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking portfolio - hedges	-	-	-	-
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking portfolio – other derivatives	369	-	343	-
a) Options	-	-	-	-
b) Interest rate swap	369	-	343	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**15,299**	**-**	**17,280**	**-**

A.5 Over the counter financial derivatives - trading and prudential portfolio: notional values, gross positive and negative fair values for counterparties – contracts that do not come under offsetting agreements

Contracts that do not come under offsetting agreements	Governments and central banks	Other public authorities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates	**-**	**-**	**334,652**	**266,710**	**-**	**-**	**-**
- notional value	-	-	317,763	252,763	-	-	-
- Positive fair value	-	-	118	12,552	-	-	-
- Negative fair value	-	-	14,801	-	-	-	-
- future exposure	-	-	1,970	1,395	-	-	-
2) Equity securities and share indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	**-**	**-**	**3,069**	**-**	**-**	**5,218**	**-**
- notional value	-	-	2,919	-	-	5,008	-
- Positive fair value	-	-	121	-	-	31	-
- Negative fair value	-	-	-	-	-	129	-
- future exposure	-	-	29	-	-	50	-
4) Other values	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.7 Over the counter financial derivatives – banking portfolio: notional values, gross positive and negative fair values for counterparties – contracts that do not come under offsetting agreements

Contracts that do not come under offsetting agreements	Governments and central banks	Other public authorities	Banks	Financial institutions	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates	**-**	**-**	**611,585**	**-**	**-**	**-**	**-**
- notional value	-	-	597,528	-	-	-	-
- Positive fair value	-	-	11,235	-	-	-	-
- Negative fair value	-	-	369	-	-	-	-
- future exposure	-	-	2,453	-	-	-	-
2) Equity securities and share indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
3) Currency and gold	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-
4) Other values	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional value	-	-	-	-	-	-	-
- Positive fair value	-	-	-	-	-	-	-
- Negative fair value	-	-	-	-	-	-	-
- future exposure	-	-	-	-	-	-	-

A.9 Residual life of over the counter financial derivatives: notional values

Underlying / Residual life		Under 1 year	From 1 to 5 years	Over 5 years	**Total**
A.	**Trading portfolio adequacy**	**235,196**	**178,307**	**164,949**	**578,452**
A.1	Financial derivatives on debt securities and interest rates	227,269	178,307	164,949	570,525
A.2	Financial derivatives on equity securities and share indexes	-	-	-	-
A.3	Financial derivatives on exchange rates and gold	7,927	-	-	7,927
A.4	Financial derivatives on other stocks	-	-	-	-
B.	**Banking Book**	**130,130**	**455,750**	**11,648**	**597,528**
B.1	Financial derivatives on debt securities and interest rates	130,130	455,750	11,648	597,528
B.2	Financial derivatives on equity securities and share indexes	-	-	-	-
B.3	Financial derivatives on exchange rates and gold	-	-	-	-
B.4	Financial derivatives on other stocks	-	-	-	-
	Total 31/12/2010	**365,326**	**634,057**	**176,597**	**1,175,980**
	Total 31/12/2009	**760,454**	**657,016**	**291,010**	**1,708,480**

SECTION 3 – LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and methods of measuring liquidity risk

Liquidity risk is the risk that the Bank might not be able to meet its own payment commitments at the due date, which would compromise day-to-day operations or the financial situation of the Bank itself. Under this risk there are the following definitions for each component of liquidity risk:

- *Liquidity mismatch risk*, which is the risk of inconsistency between the amounts and/or timeframes for incoming and outgoing cash flow;
- *Liquidity contingency risk*, which is the risk that unexpected events in the future might require an amount of liquidity that is higher than forecast. This risk may be due to different events such as not receiving loan payments, the need to fund new business, difficulty selling off liquid assets or obtaining liquidity in times of crisis;
- *Market liquidity risk*, which is the risk that the Bank is not able to dispose of assets thereby generating losses due to market conditions. This risk is managed by the persons in charge of the various trading portfolios and, as a result, it is assessed and monitored according to econometrics for market risk management;
- *Operational liquidity risk*, which is the risk of not fulfilling payment obligations due to errors, violations, interruptions or damages caused by internal processes, systems or external events, despite remaining solvent;
- *Liquidity funding risk*, which is the potential risk of rising loan costs due to changes in rating (internal) and/or extensions to credit spreads (market);
- *Margin calls liquidity risk*, which refers to a situation where the Bank is required by contract to add warranties and/or margins for certain financial instruments.

The liquidity policy approved by the Board of Directors defines:

- The organisational model where roles and responsibilities are assigned to the offices involved in the liquidity management and control process;
- Policies for managing operational and structural liquidity, indicating the models and metrics used to assess, monitor and control liquidity risk and for performing stress tests;
- *Contingency Funding Plan* (CFP), which provides the organisational processes and interventions undertaken to restore standard conditions in liquidity management in addition to providing a description of indicators to determine any critical situations.

The management of liquidity risk by Banca Popolare dell'Alto Adige is conducted at the Treasury Service, which operates under the direct responsibility of financial services central management. Definition of operational limits, on the other hand, is conducted by the risk management service at planning/control central management. General Management is responsible for governance over liquidity, both for what regards compliance with the limits defined and for what concerns tactical and structural funding strategies. In the event of liquidity emergencies, General Management is also responsible for activation, management and coordination of the Bank's Contingency Funding Plan.

An essential element is the distinction between short-term operational liquidity (under 12 months) and medium/long-term structural liquidity (over 12 months). The former is to deal with unexpected critical situations due to specific shocks in the Bank or market; the latter meets the need to ensure optimal management from a strategic standpoint, transformation of maturities between deposits and loans, by balancing asset and liability maturities in order to prevent any future crisis in liquidity.

Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits and reports, also daily. Moreover, the organisation structure is clearly defined for liquidity risk management as well as emergency plans for times of crisis (CFL, Contingency Funding Plan).

An awareness of the importance of liquidity risk, sharpened by the current and continuing crisis situation in the financial markets, has been an element of constant attention during the course of 2010. The Treasury Department is committed to the careful management of liquidity needs to guarantee the supply of liquidity over the short (activity on interbank markets) to long term (strategic liquidity). Specifically, it is expected that the trading portfolio will be invested mainly in listed financial instruments with a strong rating, based on precise, pre-established limits in quantity and quality terms. The listing and strong rating help to rapidly unfreeze the financial instruments.

For the purpose of assessing the Bank's liquidity risk, in 2010 also the *Liquidity-at-Risk* (LaR) model was prepared, which is based on monitoring "independent" negative net flows of liquidity – taking into consideration the last 5 years – applying the *Extreme-Value-Theory*, which makes it possible to improve analysis accuracy for high confidence levels. In particular, the daily balances of the following is used: mandatory reserve at the Bank of Italy, interbank deposits, bond issues, securitizations, movement of securities owned, extraordinary movement. The data is processed to prevent determination of daily cash flow linked solely to decisions not under the direct control of the Bank (Treasury Service) and so resulting from customer conduct.

The 3 confidence levels in question should represent the Bank's liquidity needs under normal conditions (up to the LaR value at 99% confidence), stress (up to 99.9%) and critical (up to 99.99%) at 1 day, 1 week (5 business days), 2 weeks (10 business days) and at one month (20 business days).

In 2010, legislation on current liquidity reserves by level of disposable liquid assets available showed that they are easily able to meet the needs of all 3 situations. Also under conditions of stress the reserves have always been more than enough to deal with liquidity needs.

During the course of 2010, the analysis of the Bank's liquidity situation has not highlighted any situations of tension over the short to long term as is also shown by the weekly reports sent to the Bank of Italy.

QUANTITATIVE INFORMATION

1. Time distribution by residual contract duration of financial assets and liabilities

Currency: 242 Euro

Items / Timescales	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unlimited
Cash assets	**1,399,802**	**2,927**	**5,736**	**156,836**	**118,078**	**164,149**	**218,972**	**1,165,378**	**1,276,742**	**-**
A.1 Treasury securities	-	-	-	-	2,492	45,045	7,560	36,795	1,026	-
A.2 Other debt securities	12,400	-	-	4,333	7,118	3,389	12,165	114,695	65,235	-
A.3 UCITS units	48,045	-	-	-	-	-	-	-	-	-
A.4 Loans	1,339,357	2,927	5,736	152,503	108,468	115,715	199,247	1,013,888	1,210,481	-
- Banks	1,823	-	-	826	25,535	-	-	-	-	-

- Customers	1,337,534	2,927	5,736	151,677	82,933	115,715	199,247	1,013,888	1.210.481	-
Cash liabilities	**2,005,821**	**82,778**	**61,210**	**85,283**	**250,015**	**97,333**	**126,036**	**1,573,191**	**68,621**	**-**
B.1 Deposits and current accounts	1,935,622	61,597	25,443	55,449	148,558	10,958	13,363	19	17	-
- Banks	44,235	61,004	25,016	55,080	145,273	7,772	9,024	-	-	-
- Customers	1,891,387	593	427	369	3,285	3,186	4,339	19	17	-
B.2 Debt securities	71	27	27,734	1,218	12,762	61,275	92,508	1,537,146	67,590	-
B0.3 Other liabilities	70,128	21,154	8,033	28,616	88,695	25,100	20,165	36,026	1,014	-
Off-balance-sheet transactions	**10,157**	**(5,734)**	**(30)**	**113**	**797**	**1,521**	**900**	**7,799**	**6,292**	**-**
C.1 Financial derivatives with exchange of principal	-	(5,734)	(30)	113	129	1,382	205	4,940	(16)	-
- Long positions	-	4,293	1,370	230	1,872	1,652	400	7,704	-	-
- Short positions	-	(10,027)	(1,400)	(117)	(1,743)	(270)	(195)	(2,764)	(16)	-
C.2 Financial derivatives without exchange of principal	(2,131)	-	-	-	-	-	-	-	-	-
- Long positions	12,670	-	-	-	-	-	-	-	-	-
- Short positions	(14,801)	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	12,288	-	-	-	668	139	695	2,859	6,308	-

Currency: 001 US Dollar

Items / Timescales	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unlimited
Cash assets	**5,682**	**11,362**	**73**	**1,720**	**1,536**	**579**	**-**	**4**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	4	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	5,682	11,362	73	1,720	1,536	579	-	-	-	-
- Banks	5,679	11,254	-	487	-	-	-	-	-	-
- Customers	3	108	73	1,233	1,536	579	-	-	-	-
Cash liabilities	**12,544**	**7,500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	12,544	7,500	-	-	-	-	-	-	-	-
- Banks	110	7,500	-	-	-	-	-	-	-	-
- Customers	12,434	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B0.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**(5,273)**	**1,385**	**3,629**	**(181)**	**(337)**	**(337)**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	(148)	38	(113)	(217)	(337)	(337)	-	-	-
- Long positions	-	2,215	1,460	112	1,684	225	-	-	-	-
- Short positions	-	(2,363)	(1,422)	(225)	(1,901)	(562)	(337)	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	(5,125)	1,347	3,742	36	-	-	-	-	-
- Long positions	-	-	1,347	3,742	36	-	-	-	-	-
- Short positions	-	(5,125)	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: 003 Swiss Franc

Items / Timescales	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unlimited
Cash assets	**10,895**	**3,955**	**1,347**	**1,558**	**9,570**	**17,801**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	10,895	3,955	1,347	1,558	9,570	17,801	-	-	-	-
- Banks	3,248	-	-	-	-	-	-	-	-	-
- Customers	7,647	3,955	1,347	1,558	9,570	17,801	-	-	-	-
Cash liabilities	**6,062**	**20,797**	**-**	**24,237**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	6,062	20,797	-	24,237	-	-	-	-	-	-
- Banks	-	20,797	-	24,237	-	-	-	-	-	-
- Customers	6,062	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B0.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**11,998**	**-**	**-**	**(11,996)**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	2	-	-	-	-	-	-	-	-
- Long positions	-	108	-	-	-	-	-	-	-	-
- Short positions	-	(106)	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	11,996	-	-	(11,996)	-	-	-	-	-
- Long positions	-	11,996	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	(11,996)	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: 071 Japanese Yen

Items / Timescales	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unlimited
Cash assets	**891**	**546**	**120**	**1,142**	**4,274**	**5,118**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	891	546	120	1,142	4,274	5,118	-	-	-	-
- Banks	487	-	-	-	-	-	-	-	-	-
- Customers	404	546	120	1,142	4,274	5,118	-	-	-	-
Cash liabilities	**2,655**	**9,204**	**-**	**1,381**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	2,655	9,204	-	1,381	-	-	-	-	-	-
- Banks	2,301	9,204	-	1,381	-	-	-	-	-	-
- Customers	354	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B0.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**(18,419)**	**-**	**-**	**-**	**18,408**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	(11)	-	-	-	-	-	-	-	-
- Long positions	-	2,040	-	-	-	-	-	-	-	-
- Short positions	-	(2,051)	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	(18,408)	-	-	-	18,408	-	-	-	-
- Long positions	-	-	-	-	-	18,408	-	-	-	-
- Short positions	-	(18,408)	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: Other

Items / Timescales	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 month to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years	Unlimited
Cash assets	**894**	**27**	**199**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	894	27	199	-	-	-	-	-	-	-
- Banks	894	-	199	-	-	-	-	-	-	-
- Customers	-	27	-	-	-	-	-	-	-	-
Cash liabilities	**1,203**	**-**	**28**	**157**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	1,203	-	28	157	-	-	-	-	-	-
- Banks	-	-	28	157	-	-	-	-	-	-
- Customers	1,203	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B0.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**180**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	180	-	-	-	-	-	-	-	-
- Long positions	-	384	-	-	-	-	-	-	-	-
- Short positions	-	(204)	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

As regards the illustration of the financial assets that have been subject to securitization transactions in which the Bank has subscribed in full the liabilities issued by the company vehicle, please refer to Part E, C.1, where the assets that have been subject to securitization and the features of the securities subscribed are set out.

SECTION 4 – OPERATING RISK

QUALITATIVE INFORMATION

A. General considerations, operating risk management processes and measurement methods

Operating risk management is guaranteed by the Bank by:

- line controls performed by the branches and internal services;
- second level controls, carried out by specialist internal bodies such as for example risk management, compliance, the manager responsible for the preparation of corporate accounting documents and the middle and back office departments;
- audits, performed by Review/Internal Auditing as part of their direct audit and remote monitoring duties;
- monitoring and analysis of operating losses with periodic reporting made by the Risk management department and related discussions of all issues in the Operating risk Committee.

Line controls

The line controls system, extended to all organisational units, has been operative since 2005. The system is governed by the line controls manual and involves the use of customised checklists for each organisational unit. In this context, Audit/Internal Auditing department obligations involve execution control, efficiency testing and onsite verification of all line controls, along with their constant updating as organisational or operating procedures change.

Second level controls

These controls are mainly focused on risk monitoring, to checking compliance with risk limits and the external and internal regulatory provisions, to checking the consistency of various transactions with the strategic risk-reward goals, and to alerting to behaviour or events that depart from usual operations.

Audits

The audits aim to identify anomalous performance, violation of procedures and regulations, and assessment of the overall performance of the internal audit system. This activity was performed continuously during the year, either periodically or exceptionally, and by means of both onsite and remote audit tools, in accordance with Regulatory Instructions.

Monitoring of operating losses

With regard to operational risk monitoring, since it was founded in 2002, the Bank has been a member of the ABI's DIPO (Italian database of operating losses) interbank consortium, and is therefore regularly involved in operating loss data collection activities.

The internal operating loss database records all events involving an operating loss of over 500 Euro. Alerts are integrated with the losses arising from legal action and from claims from customers, both of which kinds of event are systematically listed in special internal databases.

Data provided by the internal database, analyses and countermeasures implemented are discussed on a quarterly basis by the Operating Risks Committee and in the Risk Committee. The main sources of operating risk manifestation are identified at those meetings together with critical situations, the appropriateness of operating processes in existence with regard to the potential sources of loss, the action and measures to be taken with a view to preventing and mitigating them, and the quality of insurance hedges. All the results of analyses and the decisions made are then submitted to the Operational Risk Committee and the Board of Directors.

For the purpose of calculating the asset requirements with reference to operating risk the Bank adopts the basic approach in compliance with the regulatory provisions of Basel 2.

QUANTITATIVE INFORMATION

Internal reports in 2010 recorded 127 new reports with a gross loss of 388,979 Euro, of which 59.1% of cases were due to internal or external fraud (amounting to 71.4% of the value), 15.7% from processing errors (11.7% of the value), 25.2% due to other factors, forged banknotes, system errors, legal disputes, etc. (16.9% of the value).

By way of comparison, 273 events occurred in 2009, corresponding to gross losses equal to 481,077 Euro.

14 cases were reported to the DIPO in 2010 (reporting threshold 5,000 Euro) with a gross loss of 300,311 Euro.

Public notice

It is declared that the information on capital adequacy, exposure to risk and the features of the systems set up to identify, measure and manage such risks set out in the New provisions for prudential measures for banks (Circular no. 263 dated 27 December 2006) under Head IV Public Notice are published on the Bank website at www.bancapopolare.it , in the section “the Bank” under “Financial Statements”.

PART F

INFORMATION ON CAPITAL

SECTION 1 – Parent Bank shareholders' equity

A. QUALITATIVE INFORMATION

The shareholders' equity of the Bank is the sum of items 130 "Valuation reserves", 140 "Redeemable shares", 150 "Equity instruments", 160 "Reserves", 170 "Share premium", 180 "Share capital", 190 "Treasury shares" and 200 "Profit (loss) for the year" under liabilities in the balance sheet. The capital asset management methods are described in section 2.2 below.

B. QUANTITATIVE INFORMATION

B.1 Company shareholders' equity: breakdown

Items/Amounts	31.12.2010	31.12.2009
1. Capital	69,341	69,341
2. Share premium reserve	145,773	145,773
3. Reserves	232,426	217,491
- from profit	232,426	217,491
a) legal	103,000	100,300
b) extraordinary	84,692	72,211
c) treasury shares	4,183	4,183
d) other	40,551	40,797
- other	-	-
4. Equity instruments	-	-
5. (Treasury shares)	-	-
6. Valuation reserves	72,932	72,101
- Financial assets available for sale	(1,517)	(2,348)
- Tangible assets	46,061	46,061
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Discontinued operations	-	-
- Actuarial profit (loss) on retirement plans with defined benefits	-	-
- Shares of valuation reserves relating to subsidiaries valued at equity	-	-
- Special revaluation laws	28,388	28,388
7. Profit (loss) for the year	17,439	25,582
Total	**537,911**	**530,288**

B.2 Valuation reserves of available-for-sale financial assets: breakdown

Asset/Value	31.12.2010		31.12.2009	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	10	(1,503)	22	(1,960)
2. Equity securities	-	-	-	(74)
3. UCITS units	240	(265)	18	(354)
4. Loans	-	-	-	-
Total	**250**	**(1,768)**	**40**	**(2,388)**

B0.3 Valuation reserves of available-for-sale financial assets: annual changes

		Debt securities	Equity securities	UCITS units	Loans
1.	**Opening balance**	**(1,938)**	**(74)**	**(337)**	**-**
2.	**Positive changes**	**734**	**84**	**467**	**-**
2.1	Increases in fair value	220	-	407	-
2.2	Reallocation to income statement				
	of negative reserves	481	84	54	-
	- from impairment	-	84	-	-
	- from disposals	481	-	54	-
2.3	Other changes	33	-	6	-
3.	**Negative changes**	**289**	**10**	**155**	**-**
3.1	Decrease in fair value	270	10	155	-
3.2	Impairment adjustments	-	-	-	-
3.3	Reallocation to income statement	-	-	-	-
	of positive reserves: from disposals	19	-	-	-
3.4	Other changes	-	-	-	-
4.	**Closing balance**	**(1,493)**	**-**	**(25)**	**-**

SECTION 2 – Capital and adequacy ratios

2.1 Regulatory capital

A. QUALITATIVE INFORMATION

	31.12.2010	31.12.2009
1. Tier 1 capital	407,687	404,280
2. Tier 2 capital	74,575	74,469
3. Tier 3 capital	-	-
Regulatory capital including Tier 3 capital	**482,262**	**478,749**

B. QUANTITATIVE INFORMATION

	31.12.2010	31.12.2009
A. Tier 1 capital before application of prudential filters	**409.455**	**406.668**
B. Tier 1 capital prudential filters:	(1,768)	(2,388)
B0.1 Positive IAS/IFRS prudential filters (+)	-	-
B0.2 Negative IAS/IFRS prudential filters (-)	(1,768)	(2,388)
C. Tier 1 capital gross of deductible elements (A+B)	**407,687**	**404,280**
D. Elements deductible from Tier 1 capital	-	-
E. Total Tier 1 capital (C-D)	**407,687**	**404,280**
F. Tier 2 capital before application of prudential filters	**74,700**	**74,489**
G. Tier 2 capital prudential filters:	(125)	(20)
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	(125)	(20)
H. Tier 2 capital gross of deductible elements (F+G)	**74,575**	**74,469**
I. Elements deductible from Tier 2 capital	-	-
L. Total Tier 2 capital (H-J)	**74,575**	**74,469**
M. Elements deductible from total Tier 1 and Tier 2 capital		
N. Regulatory capital (E+L-M)	**482,262**	**478,749**
O. Tier 3 capital	-	-
P. Regulatory capital including Tier 3 (N+O)	**482,262**	**478,749**

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

The Bank's policies on capital ensure consistency between the degree of risk assumed and the business development plan.

B. QUANTITATIVE INFORMATION

Category/Values	Unweighted amounts		Weighted/required amounts	
	31.12.2010	**31.12.2009**	**31.12.2010**	**31.12.2009**
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**5,344,842**	**5,387,522**	**3,672,911**	**3,885,147**
1. Standard method	5,344,842	5,348,882	3,672,911	3,834,521
2. Method based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	38,640	-	50,626
B. REGULATORY CAPITAL REQUIREMENTS				
A.1 Credit risk and counterparty risk			**293,833**	**310,812**
B.2 Market risk			**6,995**	**10,388**
1. Standard method			6,995	10,388
2. Internal models			-	-
3. Concentration Risk			-	-
B.3 Operational risk			**26,173**	**25,380**
1. Basic method			26,173	25,380
2. Standard method			-	-
3. Advanced method			-	-
B.4 Other prudential requirements			**-**	**-**
B.5 Other calculation items				
B.6 Total prudential requirements (B1+B2+B3+B4+B5)			**327,001**	**346,580**
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Weighted risk assets			4,087,511	4,332,247
C.2 Tier 1 capital/Weighted risk assets (Tier 1 capital ratio)			9.97%	9.33%
C.3 Regulatory capital including Tier 3/ Weighted risk assets (Total capital ratio)			11.80%	11.05%

The ratio between regulatory capital and total capital ratio at 31.12.2010 is 11.80%.

PART G

BUSINESS COMBINATIONS CONCERNING COMPANIES OR BUSINESS BRANCHES

SECTION 1 – TRANSACTIONS PERFORMED DURING THE YEAR

1.1 Business combinations

In the course of 2010 the Bank has not made any business combinations that come under the IFRS 3 criteria.

1.2 Other information on business combinations

1.2.1 Annual changes in goodwill

Asset/Value	**31.12.2010**	**31.12.2009**
Goodwill – opening balance	**40,392**	**40,392**
Increases	-	-
- Goodwill recognised during the year	-	-
- Positive exchange differences and other changes	-	-
Decreases	-	-
- Value adjustments during the year	-	-
- Disinvestments	-	-
- Negative exchange differences and other changes	-	-
Goodwill – closing balance	**40,392**	**40,392**
Gross value	40,392	40,392
Accumulated impairment	**-**	**-**

INFORMATION ON THE METHOD USED TO PERFORM THE IMPAIRMENT TEST ON GOODWILL

Goodwill is subject to impairment testing under IAS 36, based on the recoverable value of the company overall to which the goodwill refers, where the recoverable value is understood as being the greater of:

- the fair value of the company overall net of direct costs to sell,
- the current value of the company itself overall arising from considering net future cash flows it is expected to generate (value in use).

The goodwill of Banca Popolare dell'Alto Adige has been entirely allocated to the Cash Generating Unit of the Venice headquarters, which is attributable to the purchase of the company division formed by the former IntesaSanPaolo branches.

For the purpose of identifying the recoverable value of the cash generating unit subject to impairment test to be compared with the related book value, appropriate valuations have been carried out taking account of the following approaches/hypotheses:

• the Business Plan for the Venice Headquarters has been used, as revised by the Board of Directors on the 25 February 2010, considering a plan time horizon of 5 years. The growth estimate hypotheses were determined in accordance with what the Bank has been able to express during the course of the years and taking account of the current difficult economic situation.

• the multi-period-excess-earnings approach was applied, updated with the last annuity as a yield in perpetuity. A nil growth rate has been assumed conservatively beyond the period covered by the business plan;

• the discount rate was set as equal to the Weighted Average Cost of Capital for the Bank gross of tax (3.95%), considering as cost of own equity as the average value for 2010 of the 10-year IRS rate increased by a premium for risk of 5%.

The value in use has been calculated using this approach and given that the result is higher than the value stated for the CGU, no fair value calculation was made.

The impairment testing has shown, even with the conservative hypotheses set out above, an excess between the value in use over the goodwill equal to 63.7 million Euro.

The changes in basic assumptions required to produce a negative figure set out an economic/business scenario that is very improbable.

From the analyses carried out, the impairment test has been passed and has shown no durable reductions in goodwill value, and accordingly no adjustments have been made.

SECTION 2 – TRANSACTIONS PERFORMED AFTER FINANCIAL YEAR CLOSURE

No business combinations were implemented after the year-end.

PART H

TRANSACTIONS WITH RELATED PARTIES

1. Information on directors', strategic managers' and statutory auditors' fees

		31.12.2010
Directors		**712**
of which:		
Short-term benefits	712	
Strategic managers		**1,801**
of which:		
Short-term benefits	1,612	
Post-retirement benefits	189	
Statutory Auditors		**339**
of which:		
Short-term benefits	339	
Total		**2,852**

The above table illustrates amounts paid to directors and statutory auditors by the Bank as holders of office and attendance fees. Sums indicated for strategic managers are paid salaries, matured staff severance indemnity, supplementary and welfare benefits granted to general and central management members.

2. Information on transactions with related parties:

Related parties of the Banca Popolare dell'Alto Adige are its Directors, Statutory Auditors, members of General and Central Management, i.e. the companies in which the Directors, Statutory Auditors and members of General and Central Management hold administrative, management or control office and/or hold significant voting power albeit not a controlling majority.
Indirectly related to the Banca Popolare dell'Alto Adige are the spouses and children declared as dependent upon the persons indicated above, or the companies in which the family members specified here hold administrative, management or control office and/or hold significant voting power albeit not a controlling majority.
In addition, related parties include the subsidiary Voba Invest S.r.l., Bolzano and the associated company Casa di Cura Villa S.Anna, Merano.

In accordance with and for the purposes of reporting rules on related parties of the Banca Popolare dell'Alto Adige, and with a prudential assessment of potential risk profiles indicated in the three-way report in terms of

- transaction type,
- dependency relationship with the counterparty and
- Economic and/or shareholders' equity incidence,

the following is reported:

2.1 Transactions with subsidiaries

	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31.12.2010	19,395	-	-	-	202	-
Impact	0.43%	-	-	-	0.05%	-

	Interest income on loans granted	Interest income on subscribed bonds	Interest expense on loans obtained	Interest expense on bonds issued	Commissions and other revenues	Commissions and other costs
2010	167	-	-	-	1	-
Impact	0.11%	-	-	-	0.00%	-

2.2 Transactions with associated companies

	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31.12.2010	-	-	10	-	-	-
Impact	-	-	0.00%	-	-	-

	Interest income on loans granted	Interest income on subscribed bonds	Interest expense on loans obtained	Interest expense on bonds issued	Commissions and other revenues	Commissions and other costs
2010	-	-	0	-	0	-
Impact	-	-	0.00%	-	0.00%	-

2.3 Transactions with significant suppliers of Banca Popolare dell'Alto Adige

2010 turnover

Supplier	Sector	Turnover
SEC Servizi Scpa	IT	11,108
Fimit SGR Spa	property	1,601
Ristochef Spa	staff meal vouchers	1,027
Brand Loyalty Italia Spa	customer retention programmes	941
Cerved Group Spa	information services	880

2.4 Transactions with Directors, Statutory Auditors, members of General and Central Management of the Banca Popolare dell'Alto Adige, or with companies in which the Directors, Statutory Auditors and members of General and Central Management hold administrative, management or control office and/or hold significant voting power albeit not a controlling majority

Transactions completed by BPAA with Directors, Statutory Auditors and members of General and Central Management and with other counterparties related to them are shown in aggregate form below.

		Directors		Statutory Auditors		Strategic managers	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Agreed credit limit*		1,021	232,345	1,899	182,309	181	32,803
Commitments*		763	162,088	917	98,101	43	31,220
	impact	0.02%	3.59%	0.02%	2.17%	0.00%	0.69%
Credit commitments*		-	11,928	348	30,463	-	868
	impact	-	3.05%	0.09%	7.79%	-	0.22%
Direct deposits*		1,573	62,070	148	77,765	423	1,122
	impact	0.04%	1.55%	0.00%	1.94%	0.01%	0.03%
Indirect deposits*		6,032	6,164	1,249	6,464	523	617
	impact	0.30%	0.30%	0.06%	0.32%	0.03%	0.03%
Interest income**		39	3,407	21	1,759	-	448
	impact	0.03%	2.31%	0.01%	1.19%	0.00%	0.30%
Interest expense**		22	474	-	584	2	37
	impact	0.06%	1.26%	0.00%	1.56%	0.01%	0.10%
Commissions and other income**		8	1,655	6	759	-	207
	impact	0.01%	2.47%	0.01%	1.13%	-	0.31%

* Balances as at 31/12/2010
**) amounts accrued in 2010

All the Bank's transactions with related parties are executed in compliance with the criteria of substantial and procedural fairness and under market conditions. With regard to the Bank's

transactions with subsidiaries and other related parties, it should be emphasised that there is no record of atypical and/or unusual transactions or transactions that could significantly affect the economic, equity and financial position of the Bank.
All transactions attributable to bank officer obligations pursuant to art. 136 of the Consolidated Law on Banking were subject to Board of Directors resolution.

PART I

SHARE-BASED PAYMENT ARRANGEMENTS

No supporting information is available for this section.

Part L

SEGMENT REPORTING

As regards segment reporting, Banca Popolare dell'Alto Adige has adopted as layout 1 that which refers to economic activity segments through which trading unfolds and as layout 2 that which refers to geographic areas.

Subdivision by business segment has been carried out in accordance with customer segmentation. In this view the following segments have been identified:

- PRIVATE INDIVIDUALS
- FIRMS
- FINANCE (asset portfolio and cash management)

As the basis of layout 2, the Bank has adopted a breakdown of totals by geographic area, by identifying two groupings:

- TRENTINO - ALTO ADIGE
- VENETO - FRIULI VENEZIA GIULIA

A. LAYOUT 1

A.1. Analysis by business segments: income statement figures

	Private individuals	Firms	Finance	Reconciliation	Total
Interest Margin	49,883	57,161	5,033	-5,633	106,444
Net commissions	19,970	35,688	340	11,112	67,111
Financial margin	0	0	-2,758	0	-2,758
Banking margin	**69,854**	**92,849**	**2,615**	**5,479**	**170,797**
Net adjustments for value impairment	-1,071	-7,077	0	-420	-8,568
Net income from financial management	**68,783**	**85,772**	**2,615**	**5,059**	**162,229**

A.2. Analysis by business segments: balance sheet figures

	Private individuals	Firms	Finance	Reconciliation	Total
Due from banks			50,430	0	50,430
Loans to customers	1,477,637	2,976,703	58,315	0	4,512,655
Equity shares			395,662	0	395,662
Due to banks			538,738	0	538,738
Direct deposits	3,032,633	530,197	263,196	175,343	4,001,369
- Due to customers	1,435,315	495,133	136,196	111,228	2,177,872
- Securities issued	1,597,318	35,064	127,000	64,115	1,823,497
Indirect deposits	2,005,543	20,748	0	15,931	2,042,222

B. LAYOUT 2

B0.1. Distribution by geographical area: income statement figures

	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Interest Margin	88,297	18,147	106,444
Net commissions	57,328	9,783	67,111
Financial margin	-2,758	0	-2,758
Banking margin	**142,867**	**27,930**	**170,797**
Net adjustments for value impairment	-7,495	-1,073	-8,568
Net income from financial management	**135,372**	**26,857**	**162,229**
Administrative expenses	-101,681	-21,556	-123,238
Provisions for risks and charges	-1,961	-85	-2,046
Amortization and depreciation on tangible and intangible assets	-8,673	-3,403	-12,076
Other operating costs/income	6,395	2,686	9,081
Profit (Loss) on shareholdings / from disposal of investments	-2,124	0	-2,124
Profit (Loss) from current operations before tax	**29,452**	**4,500**	**31,827**

B0.2. Distribution by geographical area: balance sheet figures

	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Due from banks	50,430	0	50,430
Loans to customers	3,662,135	850,520	4,512,655
Equity shares	395,662	0	395,662
Due to banks	538,738	0	538,738
Direct deposits	3,325,186	676,183	4,001,369
- Due to customers	1,785,573	392,299	2,177,872
- Securities issued	1,539,612	283,885	1,823,497
Indirect deposits	1,721,484	320,738	2,042,222

ANNEXES

Information pursuant to art. 149(*duodecies*) of Consob Regulations on Issuer

The table sets out the fees for the year 2010 for auditing services and for those other than for auditing paid to the Independent Auditors or to companies within its network.

Type of service	Party that performed the service	User of the service	Fees[1)]
Independent Audit	BDO S.p.A.	Banca Popolare dell'Alto Adige	53
Certification services	BDO S.p.A.	Banca Popolare dell'Alto Adige	12
Total			**65**

[1)] The amounts do not include VAT and accessory expenses.

Subsidiary Financial Statements

VOBA INVEST S.r.l. – Single member company

- Registered office: I-39100 - Bolzano, via Argentieri, n. 23/1
- Company subject to management and coordination by Banca Popolare dell’Alto Adige Soc. Coop. p.a.
- Share capital of 30,000.00 Euro, fully subscribed and paid-up
- Member of the Business Register of Bolzano, No. 03340170277
- Tax code and VAT number 03340170277

- ASSETS
- LIABILITIES
- INCOME STATEMENT
- CASH FLOW STATEMENT

VOBA INVEST S.r.l.

	ASSETS	2010		2009
A.	**Amounts owed by shareholders for unpaid contributions**		0	0
B.	**Fixed Assets**			
	I. Intangible assets			
	7. Other	5,035		6,713
	Total		5,035	6,713
	II. Tangible assets			
	1. Land and buildings	520,766		710,910
	4. Other	1,337		1,626
	Total		522,103	712,536
	III. Financial assets			
	1. Equity investments in:			
	a. subsidiaries	49,599		0
	b. associated companies	3,844,691		2,294,290
	d. other companies	3,050,000		4,250,000
		6,944,290		6,544,290
	2. Amounts owed by:			
	a. subsidiaries	1,952,268		0
	b. associated companies	8,645,966		9,064,587
		10,598,234		9,064,587
	3. Other securities	100		100
	Total		17,542,624	15,608,977
			18,069,762	**16,328,226**
	Total Fixed Assets (B)			
C.	**Current assets**			
	I. Inventories			
	4. Finished products and goods	1,431,847		1,088,489
	Total		1,431,847	1,088,489
	II. Receivables:			
	1. Customers	621		830
	4(b) Tax assets	271,637		82,929
	4(c) Prepaid taxes	0		184,948
	5. Other	244,848		195,741
	Total		517,106	464,448
	III. Financial assets			
	IV. Cash at hand			
	Total Current Assets (C)		**1,948,953**	**1,552,937**
D.	**Accruals and deferrals**		**3,521**	**4,837**
	TOTAL ASSETS		**20,022,236**	**17,886,000**

VOBA INVEST S.r.l.

	LIABILITIES	2010		2009
A.	**Shareholders' Equity**			
	I. Share capital		30,000	30,000
	IV. Legal reserve		6,000	6,000
	VII. Other reserves			
	9. Capital account payments for future share capital increase	2,000,000		3,500,000
	15. Round-off reserve	0		3
	17. Other	2,504		2,504
			2,002,504	3,502,507
	VIII. Retained earnings (losses)		784,238	957,217
	IX. Profit (Loss) for the year		-4,443,257	-172,979
	Total		**-1,620,515**	**-4,322,745**
B.	**Provision for risks and charges**			
	3. Other	1,345,000		0
	Total		**1,345,000**	**0**
C.	**Staff severance indemnities**		**80,491**	**55,191**
D.	**Payables**			
	3. Amounts owed to shareholders for loans	19,059,767		12,946,363
	5. Amounts owed to other lenders	294,890		240,890
	6. Advances	503,400		
	7. Amounts owed to suppliers	284,726		187,949
	12. Tax expense	20,959		88,672
	13. Amounts owed to pension and social security institutions	12,121		14,432
	14. Other	23,233		13,574
	Total		**20,199,096**	**13,491,880**
E.	**Accruals and deferrals**		**18,164**	**16,184**
	TOTAL LIABILITIES		**20,022,236**	**17,886,000**
	Memorandum Accounts			
	Personal guarantees issued		699,930	699,930
	of which Guarantees in favour of associate companies 699,930			
	Commitments		995,720	60,960
			1,695,650	760,890

VOBA INVEST S.r.l.

	INCOME STATEMENT (in Euro)	2010		2009
A.	**Value of production**			
	1. Revenue from sales and services	0		118,500
	2. Changes in inventories of semi-finished and finished goods and work in progress	343,358		752,473
	5. Other revenue and income	58,799		135,880
	Total		402,157	1,006,853
B.	**Cost of production**			
	6. Raw and ancillary materials, consumables and goods	343,358		904,835
	7. Services	356,640		306,336
	8. Leased assets	25,891		16,848
	9. Staff:			
	a. wages and salaries	333,985		305,212
	b. social security	94,239		73,672
	c. severance indemnity	25,222		21,879
		453,446		400,763
	10. Amortisation, depreciation and write-downs			
	a. amortisation of intangible assets	1,679		1,679
	b. depreciation of tangible assets	33,301		39,449
	d. write-downs on receivables under current assets and cash at hand	0		11,409
		34,980		52,537
	12. Provisions for risks	1,345,000		0
	14. Other operating charges	26,802		46,478
	Total cost of production		2,586,117	1,727,797
	Difference between value and cost of production (A-B)		**-2,183,960**	**-720,944**
C.	**Financial income and charges**			
	16. Other financial income			
	d. income other than the above	797,496		574,820
	of which from associate companies 795,216			574,109
		797,496		574,820
	17. Interest and other financial charges	216,347		134,023
	of which to parent companies 216,337			134,023
	Total financial income and charges		581,149	440,797
D.	**Financial asset value adjustments**			
	18. Revaluations:			
	a. equity investments	1,050,000		0
		1,050,000		0
	19. Write-downs:			
	a. equity investments	3,705,499		0
		3,705,499		0
	Total financial asset value adjustments		-2,655,499	0
E.	**Extraordinary income and charges**			
	20. Income	1		0
	21. Charges	0		3
	Total extraordinary items		1	-3
	Profit (loss) before tax (A-B+C+D+E)		**-4,258,309**	**-280,150**
	22. Income tax for the year – current, deferred and prepaid		184,948	-107,171
	23. Loss for the year		**4,443,257**	**-172,979**

VOBA INVEST S.r.l.

CASH FLOW STATEMENT Amounts in thousands of Euro					
Sources	**value**	**%**	**Loans**	**value**	**%**
Net profit	-4,443	-83.0	Investments in assets	5	0.1
Depreciation and amortisation	35	0.7	Investments in financial assets	3,846	71.9
Provisions	25	0.5	Paid seniority indemnity	0	0.0
Partial write-down/Interest	1,864	34.8	Decrease in amounts payable to shareholders for medium/long-term loans	0	0.0
			Decrease in other medium/long-term payables	0	0.0
Self-financing generated from operations	-2,519	-47.1	Increase in medium/long-term loans	0	0.0
			Utilisation of provisions for future charges	0	0.0
Disinvestment of assets	162	3.0	Utilisation of reserves		0.0
Disinvestment of financial assets	49	0.9	Dividend distribution		0.0
Share capital increase subscribed and paid	0	0.0	Redemption of shareholder's equity	1,500	28.0
Decrease in medium/long-term loans	0	0.0			
Increase in amounts owed to shareholders for medium/long-term loans	0	0.0			
Increase in other medium/long-term payables	0	0.0			
Increase in provisions for future charges	1,345	25.1			
Increase in reserve as per art. 55	0	0.0			
Total sources	-963	-18.0	Total loans	5,352	100.0
Decrease in net working capital	6,314	118.0			
	5,352	100.0		5,352	100.0

Financial statement certification for the year under art. 81-ter of Consob Regulation no. 11971 dated 14 may 1999 as later amended and extended

1. The undersigned, Otmar Michaeler, as Chairman of the Board of Directors and Wolfgang Plattner as the Manager responsible for the preparation of corporate accounting documents for Banca Popolare dell'Alto Adige società cooperativa per azioni, certify, taking account of the provisions of art. 154-bis (3, 4) of Legislative Decree no. 58 of 24 February 1998:
- the adequacy with reference to the characteristics of the enterprise and
- the effective application

of the administrative and accounting procedures for forming the financial statements for the year, during the course of 2010.

2. No significant aspects have emerged on this topic.
Assessment of the adequacy and compliance with the administrative and accounting procedures for the preparation of the financial statements as at 31 December 2010 is based on a Model defined by Banca Popolare dell'Alto Adige, in accordance with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is the framework of standards for internal control systems and financial reporting generally accepted at international level.

3. It is further certified that:

3.1 The financial statements for the year:
a) Were drawn up in compliance with the applicable international accounting principles accepted within the European Community pursuant to (EC) regulations no. 1606/2002 of the European Parliament and of the Council, dated 19 July 2002;
b) correspond to the records in the books and the accounting entries;
c) are suited to provide a true and correct view of the equity, income and cash flow position of the issuer.

3.2 The management report includes a reliable analysis on the progress and results of management, and on the position of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Bolzano, 25 March 2011

Otmar Michaeler	Wolfgang Plattner
Chairman of the Board of Directors	Manager responsible for the preparation of corporate accounting documents
[*signature*]	[*signature*]

Independent Auditors' Report pursuant to art. 14 and art. 16 of Legislative Decree no. 39 of 27.1.2010

To the shareholders of
Banca Popolare dell'Alto Adige *società cooperativa per azioni*

1. We have performed audit of the year-end financial statements, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement and the related notes to the accounts of Banca Popolare dell'Alto Adige società cooperativa per azioni closed at 31 December 2010. The directors of Banca Popolare dell'Alto Adige società cooperativa per azioni are responsible for drafting the financial statements in accordance with the International Financial Reporting Standards adopted by the European Union, and with the provisions issued in the enactment of art. 9 of Legislative Decree no. 38/2005. Our responsibility is expressing our professional judgement on the financial statements based on the accounting audit.

2. Our audit was completed in accordance with the auditing principles and criteria recommended by Consob. In compliance with the principles and criteria referred to above, the audit was planned and carried out with the purpose of acquiring every element required to ascertain whether the financial statements include significant errors and if, overall, can be considered reliable. The process of auditing includes examining, based on sample checks, the items of proof in support of the balances and the information contained in the financial statements and an assessment of the adequacy and accuracy of the accounting policies used and the reasonableness of the estimates made by the directors. We feel that the work carried out provides a reasonable basis for expressing our professional opinion.

   For the opinion concerning the previous year's financial statements, whose main data are included for comparison purposes, we refer to the report issued by us on 29 March 2010.

3. It is our opinion that the year-end financial statements at 31 December 2010 of Banca Popolare dell'Alto Adige società cooperativa per azioni comply with the International Financial Reporting Standards adopted by the European Union, and with the provisions of art. 9 of Italian Legislative Decree no. 38/2005. Thus they are drafted clearly and present a truthful and fair view of the equity and income position, the profit and loss for the year and the cash flows of Banca Popolare dell'Alto Adige società cooperativa per azioni for the year ended at that date.

4. The Directors of Banca Popolare dell'Alto Adige società cooperativa per azioni are responsible for drafting a Directors' Report, in compliance with the law and regulatory provisions. It is our responsibility to express our opinion on the consistency of the report with the financial statements, as required by the law. To this end, we have carried out the procedures stated by Auditing Principle no. 001 issued by the Italian Accounting Profession and recommended by Consob. It is our opinion that the Directors' Report is consistent with the statutory financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as at 31 December 2010.

Verona, 5 April 2011

BDO S.p.A.

[signature]
Alfonso Iorio
(Partner)