Banca Popolare dell’Alto Adige

Società cooperativa per azioni

Annual Financial Report
2011

Banca Popolare dell'Alto Adige
società cooperativa per azioni

registered office and head office: Via Siemens, 18 – I-39100 Bolzano
Share Capital at 31 December 2011: Euro 69,340,638 fully paid up
Tax code, VAT number and member of the Business Register of Bolzano no. 00129730214
The bank adheres to the inter-bank deposit protection fund and the national guarantee fund
ABI 05856.0
www.bancapopolare.it

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YEAR-END REPORTS AND FINANCIAL STATEMENTS

Corporate Officers and Independent Auditors

Board of Directors		
	Chairman	Otmar Michaeler
	Deputy Chairmen	Arno Eisendle
		Lorenzo Salvà
	Directors	Marcello Alberti
		Rudolf Christof
		David Covi (in office since 28.04.2011) (*)
		Philip Froschmayr
		Werner Gramm
		Lukas Ladurner
		Alessandro Marzola
		Margit Tauber (*)
		Gregor Wierer
		Oskar Zorzi (in office until 27.04.2011) (*)
		(*) Independent directors as per art. 29 (6) of the articles of association
Executive Committee		
	Chairman	Otmar Michaeler
	Directors	Marcello Alberti
		Rudolf Christof
		Arno Eisendle
		Gregor Wierer
Board of Statutory Auditors		
	Chairman	Heinz Peter Hager
	Standing Auditors	Joachim Knoll
		Georg Hesse
	Substitute Auditors	Massimo Biasion
		Emilio Lorenzon
Board of Arbitrators		
	Chairman	Max Bauer
	Standing Arbitrators	Gino Bernardi
		Walter Kompatscher
Substitute Arbitrators		Hansjörg Cimadom
		Richard Stampfl
Management		
	General Manager	Johannes Schneebacher
	Deputy General Manager	Stefan Schmidhammer
Independent Auditors		BDO S.p.A.

NOTICE CALLING THE ORDINARY SHAREHOLDERS' MEETING

Banca Popolare dell'Alto Adige

Società cooperativa per azioni

Head Office: Bolzano - via Siemens, 18
Tax Code: 00129730214

CONVENING OF THE ORDINARY AND EXTRAORDINARY SHAREHOLDERS' MEETING

NOTICE CALLING THE SHAREHOLDERS' MEETING

The Ordinary and Extraordinary Shareholders' Meeting for Banca Popolare dell'Alto Adige Soc.coop.pa shall be held, on first call, on 16 April 2012 at 08.00 at the bank's head office, and, if necessary on second call, it shall be held on **Tuesday 17 April 2012 at the assembly room in Merano - Kursaal, Corso Libertà 31, starting at 18.00**, to discuss and resolve on the following agenda:

Ordinary Session

1. Reports by the Board of Directors and by the Board of Statutory Auditors for the 2011 financial year; presenting of the financial statements and subsequent resolutions.
2. Determination of the 2012 share premium on Banca Popolare dell'Alto Adige shares, based on art. 10 of the articles of association.
3. Statement regarding the remuneration policies adopted according to the guidelines provided by the shareholders' meeting of 27 April 2011, report on implementation of remuneration policies and compliance with legal rules; related resolutions.
4. Renewal of four members of the Board of Directors as per articles 29, 30 and 54 of the articles of association.

Extraordinary Session

1. Revocation of the shareholders' meeting resolution of 22 April 2008 concerning the issue of convertible bonds and granting the option to raise share capital by issuing shares and by issuing bonds that can be converted into shares in Banca Popolare dell'Alto Adige, which would entail an amendment to art. 6 of the Articles of Association.

Note

The proceedings of the meeting are regulated by the regulations approved by the general shareholders' meeting held on 17.02.2011, which can be obtained at www.bancapopolare.it.

Presentation of slates for appointment of four directors

Concerning item 4 on the agenda, the members are reminded that they are entitled to submit candidate slates under the terms and manner laid down by art. 30 of the articles of association.

Every slate should contain four candidates sorted progressively. The slates should be filed at the head office of Banca Popolare dell'Alto Adige in Bolzano, via Siemens 18, no later than Friday 6 April 2012, together with the documentation required by the bank under art. 30(4) of the articles of association, and they should be signed by:

a) At least two hundred submitting members, or, alternatively

b) One or more submitting members who hold, also jointly, at least 173,351 shares in Banca Popolare dell'Alto Adige

in order to meet the provisions laid down by art. 30(5.a,b) of the articles of association. It should be mentioned that as at 31.12.2011 there were 19,638 members with voting rights, and 90 days before the shareholders' meeting on first call the bank's share capital amounted to Euro 69,340,638, divided into 34,670,319 shares at Euro 2 each.

The signatures of submitting members should be authenticated by a notary or by an employee of Banca Popolare dell'Alto Adige who has been granted such power by the board of directors. Submitting members who hold signature certification in Banca Popolare dell'Alto Adige can go to the following professional figures:

- at branches:

  Office Manager; Branch Manager; Assistant Branch Manager;

  Head of Corporate Services, Head of Private Services;

- at the head office:

  General Administration Executive.

Facsimile forms and information for shareholders can be found at www.bancapopolare.it.

Valid candidate slates submitted for the appointment of directors shall be made available at the bank’s head office and published at www.bancapopolare.it by Saturday 7 April 2012.

Participation at Shareholders’ Meeting

Persons entitled to participate at the shareholders’ meeting are shareholders in possession of broker certification as required to current legal rules. The bank shall handle certification for shares issued and held on deposit and administration at Banca Popolare dell'Alto Adige.

Only shareholders who have been registered in the book of shareholders for at least 90 days shall be eligible to exercise their voting rights.

Shareholders who are eligible to participate and vote can be represented by proxy by another shareholder who is entitled to participate and vote at the same meeting, unless there is any incompatibility or restrictions laid down by law and art. 25 of the articles of association. The signatures of shareholders represented by proxy should be authenticated by a notary or by an employee of Banca Popolare dell'Alto Adige who has been granted such power by the board of directors. The signature of such shareholders with share certificates not deposited at Banca Popolare dell'Alto Adige can be authenticated by the broker holding the certificates.

Shareholders represented by proxy that have their signature authenticated at Banca Popolare dell'Alto Adige sign the proxy form available at the bank’s branches and head office before an employee as follows:

- at branches:

  Office Manager; Branch Manager; Assistant Branch Manager;

  Head of Corporate Services, Head of Private Services;

- at the head office:

  General Administration Executive.

A facsimile of the form can be obtained at www.bancapopolare.it.

It should be pointed out that each shareholder can represent by proxy a maximum of five shareholders, with the exception of cases laid down by law.

The original proxy should be submitted at first entry to the meeting.

For legal representation suitable documentation should be submitted at first entry to the meeting.

Bolzano, 09 March 2012

Banca Popolare dell'Alto Adige Soc.coop.pa
Chairman of the Board of Directors

Otmar Michaeler

In accordance with the articles of association this notice was published in Gazzetta Ufficiale della Repubblica Italiana – part II – no. 38 of 29 March 2012.

Our Network

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, 23/bis
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
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Laces - via Stazione, 1/b
Laives - via Kennedy, 123
Lana - piazza Tribus, 17
Lasa - via Venosta, 44
Lazfons - Paese, 18
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Malles Venosta - via Stazione, 9/b
Merano - piazza del Grano, 3
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Merano - via Matteotti, 43
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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
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Varna - via Brennero, 101
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Vipiteno - via Città Nuova, 22/a

Belluno province

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Belluno, bank4fun - via Caffi, 1/a-3
Belluno - via Caffi, 15
Belluno - via Vittorio Veneto, 278
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Dosoledo - piazza Tiziano, 2
Feltre - via Monte Grappa, 28
Forno di Zoldo - via Roma, 70/b
Limana – via Roma, 116/118
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San Pietro di Cadore - via P.F.Calvi, 16
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Sedico - via Cordevole, 2/b
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Tai di Cadore - via Ferdinando Coletti, 15
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Pordenone province

Cordenons - via Sclavons, 77
Pordenone - via Galvani, 8
Sacile - via Martiri Sfriso, 9

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 De Gasperi, 4
Moena - piazza Italia, 16
Mori - via della Terra Nera, 48/d
Pergine Valsugana - viale Venezia, 44
Riva del Garda - via Damiano Chiesa, 4/g-4/h
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

Treviso province

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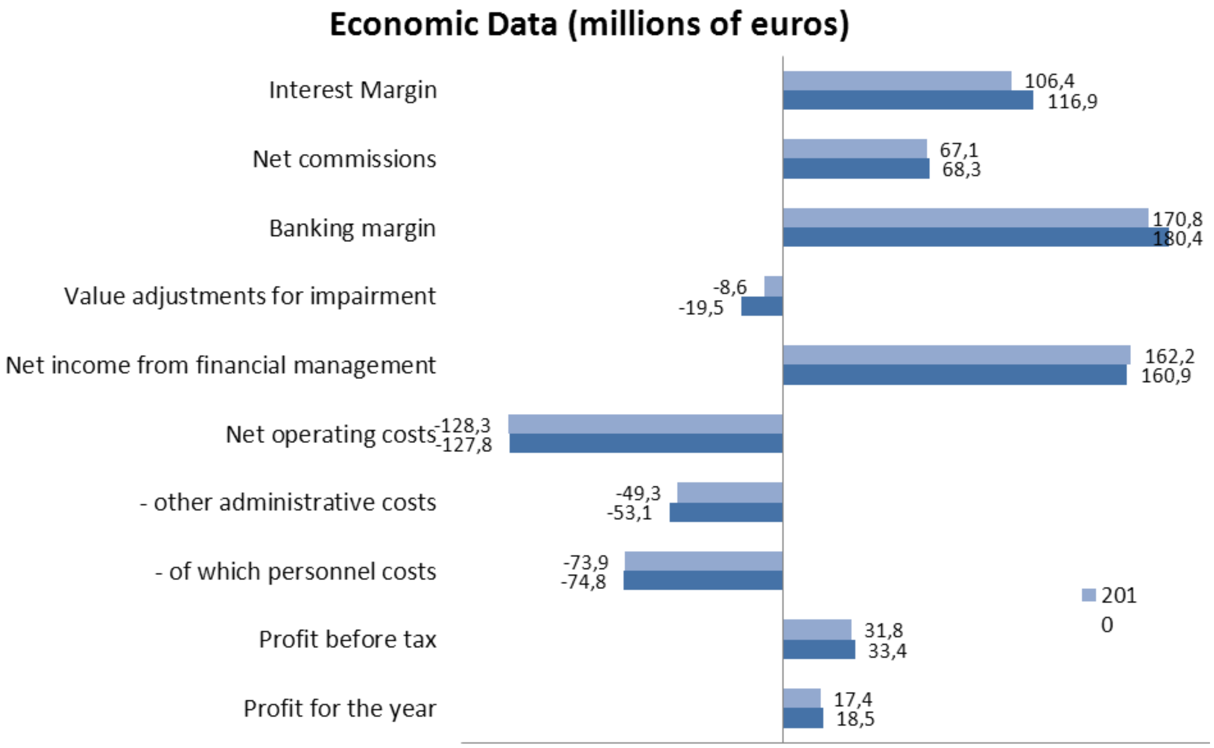
Oderzo - via degli Alpini, 24-26
Paese – via C. Battisti, 3
Pieve di Soligo - via Nubie 3/d
Preganziol – piazza Gabbin, 16
Spresiano - piazza Luciano Rigo, 49
Treviso - viale IV Novembre, 13/a
Valdobbiadene - via Foro Boario, 21/23/13
Vittorio Veneto - galleria Tintoretto, 3

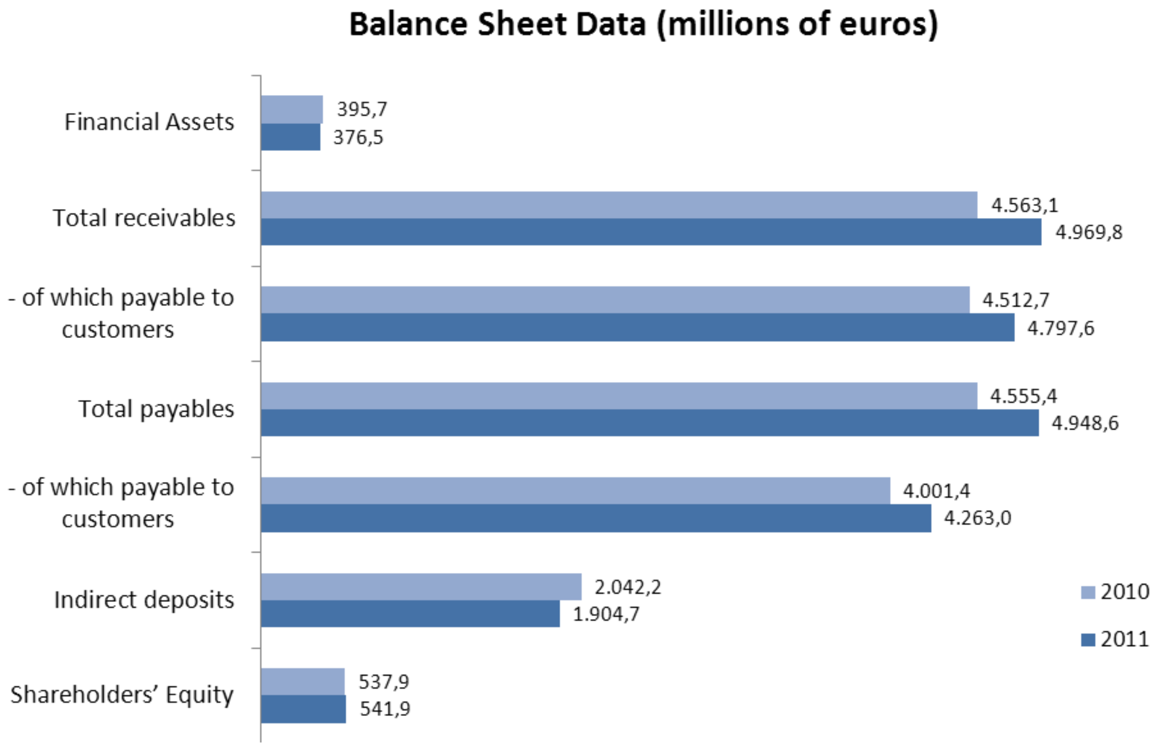
Venice province
Fossò - via Roncaglia, 1
Marcon – viale della Repubblica, 2
Martellago – via Friuli, 28
Mira – via Alfieri, 9/c
Mirano - via Cavin di Sala, 39
Noale - via Tempesta, 31
Oriago di Mira - via Venezia, 120
Portogruaro – via S. Agnese, 28
San Donà di Piave - via Vizzotto, 92
Spinea – piazza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

OUTLINE OF ECONOMIC-FINANCIAL DATA AND INDICES

Below is an outline of bank data and indices calculated on the basis of accounting records.



Economic Data	31.12.2011	31.12.2010	Change	
(millions of Euro)			**Amount**	**%**
Interest Margin	116.9	106.4	10.4	9.8%
Net commissions	68.3	67.1	1.2	1.8%
Banking margin	180.4	170.8	9.6	5.6%
Value adjustments for impairment	(19.5)	(8.6)	(11.0)	128.1%
Net income from financial management	160.9	162.2	(1.4)	(0.8%)
Net operating costs	(127.8)	(128.3)	0.5	(0.4%)
- other administrative costs	(53.1)	(49.3)	(3.8)	7.6%
- of which personnel costs	(74.8)	(73.9)	(0.9)	1.2%
Profit before tax	33.4	31.8	1.6	5.1%
Profit for the year	18.5	17.4	1.1	6.2%



Balance Sheet Data	**31.12.2011**	**31.12.2010**	**Change**	
(millions of Euro)			**Amount**	**%**
Financial Assets	376.5	395.7	(19.2)	(4.8%)
Total receivables	4,969.8	4,563.1	406.7	8.9%
- of which payable to customers	4,797.6	4,512.7	285.0	6.3%
Total payables	4,948.6	4,555.4	393.1	8.6%
- of which payable to customers	4,263.0	4,001.4	261.6	6.5%
Indirect deposits	1,904.7	2,042.2	(137.5)	(6.7%)
Shareholders' Equity	541.9	537.9	4.0	0.7%

DIRECTORS’ REPORT

1.1. Results, Policies and Strategies

1.1.1. The Economic Outlook

The Global Economy (1)

At the beginning of 2011 the global economy started off with a positive outlook, however, it worsened halfway through the year. Tensions related to sovereign debt in the euro area and continuing uncertainty on the process to consolidate public finances in the United States had repercussions on growth prospects for advanced economies. In Japan, the recovery experienced in Q3 was followed by a downturn at the end of the year. According to initial indications also Q4 showed signs of a slowdown.

Tensions related to sovereign debt in the euro area worsened and extended and eventually became systemic. The runs on government securities in many countries in the area were impacted by uncertainty. EU Intervention and coordination between governments were not always able to lower tension despite major corrections in public deficits attempted by national governments. Growth forecasts raised this uncertainty even further. Investors became increasingly wary of risk and preferred to invest in low-risk instruments such as US and German treasury bonds. On 13 January the rating agency Standard & Poor’s downgraded the sovereign debt of nine countries in the euro area, including France, Italy and Spain.

The spread between Italian and German 10-year bonds, which in November reached a record 550 base points, fell considerably at the beginning of December after new rigorous measures were announced to correct public finances. It then went back up and continued to rise steadily, which led to fears on the systemic nature of the crisis. Concerning short-term maturities, premiums on risk for government securities dropped considerably in the last few weeks of the year as a result of ECB three-year refinancing measures.

During the last quarter of 2011, the Eurozone economy weakened. The €-coin indicator, which provides a quarter-on-quarter estimate of GDP growth in the Euro area, continued to be negative since October. Growth trends were estimated to be lower in 2012 as well. Inflation subsided after tensions on input costs slackened. The ECB Governing Council lowered interest rates to 1%. It introduced new important measures to support bank lending to households and companies, made complicated by the increasing difficulty in funding and segmentation of interbank markets. An initial 36-month refinancing operation was carried out on 21 December with full negotiation of all amounts needed. After the operation the rise in liquidity in the banking system and the lowering fears concerning the funding capacity of banks led to a reduction in premiums for implicit risk in interbank interest rates and an improvement in premiums on bank CDS.

The National Economy

Concerning the Italian economy, the slowdown in global trade and worsening sovereign debt crisis weighed heavily and made the financing cost rise as well as the effect of corrective measures on available income, which nevertheless prevented more serious consequences on the real economy. In Q3 2011 Italian GDP fell by 0.2 percent, which was the first drop since the beginning of 2010.

The trend was impacted by weak domestic demand with a fall in household consumption (-0.2%) and investments (-0.8%). Foreign trade continued to support GDP by about 0.8 percent: exports rose by 1.6%; imports dropped further (-1.1%) in relation to weaker domestic demand.

[1] According to the observatory of Banca Popolare dell’Alto Adige from sources that include the Bank of Italy, ISTAT, chamber of commerce, financial news, especially Il Sole 24 ore.

The change in inventories took about half a percentage point from the rate. The economic outlook worsened in autumn. In the Q4 average industrial production fell at its highest rate since spring of 2009 (around 3%). Negative opinions are increasingly being expressed by companies with respect to short-term business forecasts.

According to our estimates the GDP fell by about half a percentage point in the quarter. The indicators confirm the weak domestic demand, which is a reflection of lower household income available. Foreign sales continue to sustain growth even though they are being affected by the slowdown in global trade.

Starting in summer consumer prices felt the impact of indirect taxation, whereas pressure from domestic demand and imported raw materials is subsiding. In December consumer inflation, measured according to the change in the national consumer price index over twelve months, stood at 3.3% (preliminary estimate). With less pressure on input costs, forecasts published by Consensus Economics in January stood at 2.3% as the average in 2012; however, this assessment does not take into full account the additional rises in indirect taxation decided at the end of 2011.

Industrial activity weakened in the last quarter of 2011: business confidence and short-term forecasts have worsened. Company profitability remained the same and self-financing decreased. Company finances felt the impact of tension in financial markets and lower demand. It became more difficult to obtain credit from banks and cash flow became a problem.

In November the industrial production index rose very little (+0.3%). According to an estimate by Banca Popolare dell'Alto Adige for the month of December manufacturing fell by about 3% on average in Q4 2011. The recent drop concerned all major industrial segments. The production of consumer goods has continued to fall for the last year. Companies consider their short-term business prospects to be unfavourable.

At the latter end of 2011 consumer confidence dropped: consumption felt the impact of weak income availability and negative forecasts in the job market. Household consumption fell by 0.2% in Q3 after three quarters of stagnation. Purchases fell (especially semi-durable goods), whereas spending on services rose slightly.

The downward trend in retail sales and car registrations continued in the fall and the trend in orders did not show any short-term recovery. Spending trends reflect available income, and according to ISTAT the average over the first nine months of 2011 remained stagnant. The increase in nominal income (2.6%) was eroded by price trends.

Consumer confidence fell considerably in the summer. In December it reached its lowest level since 2008. In Q3 2011 household debt in relation to available income remained basically the same compared to the 66% of the previous quarter. The level of debt remained considerably lower than the average in the Euro area, which was 99.6% of available income at the end of Q2 2011. Interest rates on home loans and consumer credit rose during the quarter. Expenses incurred by Italian households for debt service (payment of interest and repayment of principal) remain the same at 10.8% of available income.

Italian exports of goods and services increased in Q3 2011 whereas imports fell. The current account deficit in the balance of payments continued to fall. Tensions related to sovereign debt in the Euro area caused high disinvestment of Italian treasury bills and a considerable reduction in bank liabilities abroad.

The rise in employment, which began in Q4 2010, came to an end in the latter months of last year. Provisional figures for October and November show a reduction in the number of jobs and a rise in unemployment, which reached very high levels for young job seekers. Company employment forecasts continued to worsen even if the number of applications for unemployment indemnities decreased. Salaries fell in real terms, also due to the freeze on public salaries. In Q3 2011, without considering seasonal factors the number of jobs rose by one-tenth of a percentage point (33,000 jobs) compared to the previous period. The employment rate for workers between 15 and 64 basically remained stable at 57.0%. Also the activity and unemployment rates remained substantially stable (62.1% and 8.1% respectively). The negative trend in the construction segment (-2.0%) was compensated by the positive trend in the services segment (0.4%) and industry (0.2%).

The rise in employment concerned the North (0.3%) while there was no rise in the Centre and the number of jobs fell slightly in the South (-0.1%). Despite the slightly positive trend in Q3, provisional figures were worse in the latter months of 2011. In October and November the number of jobs fell by one-tenth of a percentage point.

Consumer prices rose at the end of 2011, which was a reflection of the rising indirect taxes. Pressure from production prices lessened gradually. According to the provisional figures issued by ISTAT, in December 2011 inflation, measured according to the national consumer price index, stood at 3.3%, like in November. Consumer prices were affected by the rise in VAT resolved at the beginning of September. The shift to retail prices was practically complete by the end of fall and the total impact was just under one half a percentage point.

The rise in VAT also led to a rise in inflation (net of foodstuffs and energy), which went up by 2% in the latter months of 2011; in particular, there was an increase in the goods component (1.6% average in Q4, from 1.1% in the summer), most impacted by the VAT hike. At the beginning of this year there was a further increase in fuel tax in certain regions in addition to the increases already decided in December. This contributes to the rise in certain regulated prices (especially electricity rates) thereby further increasing short-term prices. On average, in 2011 the consumer price index rose by 2.8%, against 1.5 the previous year.

Tensions on the market of Italian government securities had a negative impact on bank funding capacity. These difficulties might be mitigated by new Eurosystem refinancing.

Supply conditions might have a negative impact from the lowering quality of credit. Italian bank capital rose further. Italian bank deposits, without considering domestic interbank transactions and amounts owed to Eurosystem and central counterparties, fell by 0.7% in the twelve months ending in November (it rose by 0.6% in August). Foreign liabilities fell in particular (-4.3%), but also resident deposits to a lesser degree (-0.8%). Following the continuing difficulty in wholesale placement the slowdown in funding from bonds continued, without considering the interbank component (2.1%).

The trend in deposits remained moderately positive with regard to households (0.7%). The drop in business deposits (-6.1%) might partly be related to the fall in their cash flow. The decrease in deposits was particularly seen in large banks. In November deposits for the top five groups decreased by 5.5% over twelve months, mainly as an effect of lower resident deposits and current accounts while the other banks reported a rise (1.7% without considering foreign branches).

The sovereign debt crisis in the Euro area had a major impact on the Italian financial market. The spread between ten-year Italian bonds and German bonds reached record highs. The measures adopted by the government enabled a reduction in the spread, however, it was only temporary as there continued to be major uncertainty on the effectiveness of European policies and growth forecasts continued to worsen.

In recent weeks tensions have remained high but risk premiums on government securities have fallen considerably (for maturities of under three years). Since the beginning of October to the first ten days of January the spread between ten-year BTP and corresponding German bonds rose significantly and on 9 November it reached its highest level since the Euro was introduced. This was a sign of the increasing sovereign debt crisis in the Euro area and, in particular, the uncertainties of operators on the response of European authorities to the crisis. Tensions were made worse by the economic outlook in the area and by the repeated downgrading of government securities and the banks of certain European countries, including Italy.

The Local Economy

Trentino-Alto Adige

In the first half of 2011 expansion in the manufacturing sector ended after a recovery over the last eighteen months and already at the end of 2010 there were clear signs of a slowdown. Recent difficulties in the financial markets and the high degree of economic uncertainty put an end to investment programmes and hiring.

The construction segment recorded a slight decrease in operations and there does not appear to be any sure sign of recovery, whereas the tourism segment continued to rise, especially due to the contribution from foreign customers. There was a rise in employment mainly due to the female component.

The unemployment rate continued to be limited and applications for unemployment indemnities slowly returned to pre-crisis levels. Credit granted to residents did not change significantly compared to year-end 2010. According to the banks with branches in the region there were fewer applications for business loans and the conditions for providing credit worsened slightly.

The incidence of new non-performing loans on the total number of loans fell slightly, but signs of lower quality of bank credit came from the other types of non-performing loans. Bank deposits grew at a lower rate than the loan rate, which continues the trend that began in 2010.

In the first half of 2011 the recovery that started in mid-2009 in production levels in the regional manufacturing industry came to a halt. Indicators provided by ISTAT show a slight increase in the use of plants, however there was a rise in finished product inventories. Surveys conducted by local chambers of commerce appear to confirm that the expansion phase turned to a slowdown after reaching pre-crisis levels. The value of production for the manufacturing industry in Trentino grew by 7.1% (Q2), which is down from 20.4% (Q1, compared to the corresponding period of the previous year). Similarly, turnover fell from 13.5 to 8.7%. Despite the recovery of production levels employment remains stagnant, probably due to the considerable uncertainty in the future of the economy.

In Alto Adige the number of businesses that consider their profitability positive fell slightly compared to the end of the year, thereby returning to levels recorded in June 2010. Forecasts made to June show a modest increase in turnover in the second half of the year especially due to the positive contribution from the foreign component.

Also the survey conducted by the Bank of Italy on a sample of 94 industrial enterprises based in the region confirmed overall improvement over 2010, although they still showed certain difficulties concerning the future. The number of companies that expect to close 2011 at a profit rose by almost 10% over last year (from 55% to 63%), while only 10% of the sample report losses (23% in September 2010).

Turnover in the first nine months of the year rose compared to the same period of the previous year: the balance between the number of companies reporting a rise and the number of companies reporting a drop remained positive at about 15 points. Further confirmation of the slowdown underway is the fact that the balance falls to 10 points when comparing the current trend of orders and sales with the trend at the end of June, and it goes down an additional 3 points when requesting six-month forecasts.

The higher degree of economic uncertainty was the main factor that led 26% of respondents to invest less than what they had planned at the end of 2010 (whereas only 16% of the sample invested more than planned). This figure is particularly negative when considering that already in April the entrepreneurs interviewed expected that this year there would be a fall in investments compared to 2010. Recent trouble in financial markets led nearly half of the respondents to lower their investment plans for the next twelve months, while 35% of respondents expect a drop in production levels. On the whole, about half of the sample expects the conditions of their market to worsen in 2012.

In the first half of the year the nominal value of exported goods rose by 13.6% in Trentino and by 18.7% in Alto Adige. In both provinces exports returned to pre-crisis levels. Recent growth concerned all major segments with the exception of machinery in Trentino, which recorded a 45% fall. Growth was particularly high in agriculture and road transport in Bolzano as well as transport vehicles in Trento.

Exports to countries in the European Union grew at similar rates in both provinces. In Bolzano there was a considerable increase in sales in Asia (37.6% compared to 2.3% in Trento).

Recent data indicates that foreign sales are slowing down: in Q2 2011 the change was 1.4% in Trento and 0.5% in Bolzano (4.8 and 6.5% respectively in Q1 2011 compared to Q4 2010), much less than the overall figure for the North-East (5.1%, after the 5.4% in the previous quarter).

The construction sector continued to go through a difficult period in both provinces. The data provided by local construction associations in both provinces show a 0.6% decrease in the number of hours worked compared to the same period of the previous year. The number of workers employed in the province of Trento fell by nearly 3%. In the province of Bolzano the decrease was nearly 2%.

According to the surveys conducted by the chambers of commerce, Trentino businesses in the sector recorded a major fall in turnover and in the value of production. In Bolzano there was a rise in the number of businesses that stated they were satisfied with their profitability (about 80%); however, for the second half of the year they expect a further decrease in turnover mainly due to fewer local orders and negative trends in sales prices.

In the first half of 2011 the value of public contracts awarded in Trentino (mainly Trento, municipalities, the Trentino residential construction institution and healthcare service, while there were no contracts awarded by the Autostrada del Brennero and by Trentino Trasporti) decreased by about 15% compared to the same period of the previous year. The decrease mainly concerned minor works (between Euro 20,000 and 150,000) and contracts awarded by municipalities (while there was a rise in the value of contracts tendered by the province and the Trentino residential construction institution). According to the figures provided by Cresme, the overall value of contracts awarded in Trentino rose by 15%, and more than doubled in Alto Adige. On the whole, in the regions in the North-East there was a 5.7% rise in contracts awarded, whereas the national level fell by over 20%.

The figures provided by ISTAT show a significant recovery in commercial real-estate sales, which, in Q1 2011 grew by 81.6% in Trentino and 27.1% in Alto Adige. Residential real-estate sales remained stationary in Trento and fell by 2% in Bolzano. Residential prices, recorded by the Territory Agency and expressed in nominal terms, showed a rise of 1% in Trentino (and rising) and 0.4% in Alto Adige (and slowing). The two capitals of the region were characterised by increasingly stable prices that remained substantially the same in Bolzano and decreased slightly in Trento (-0.6%). Without considering inflation the prices fell significantly in both provinces (by 1.5% in Trentino and over 2% in Alto Adige).

The Sales Sector

The local chambers of commerce report positive trends for wholesale operations in both provinces after suffering the most during the worst period of the crisis. Retail sales remain stable. In the province of Trento total sales in wholesale operations rose by over 5% in the first half of the year, whereas the rise in retail sales was more limited.

In Bolzano the number of wholesalers who state their satisfaction in business profitability rose by over 20% compared to the first half of 2010 (from 55% to about 80%), and a further increase in turnover is expected in the second half of the year. In retail sales the number of respondents who stated their satisfaction in business profitability did not change significantly and amounted to about 80%. Expectations for the second half of the year are rather negative, especially due to the expected fall in purchases by Italian tourists.

More difficulty was reported in the automobile industry. According to the national Automobile Association in the first eight months of the year vehicle registrations dropped by 15%, while commercial vehicle registrations fell by just under 10%.

Tourism

In the first half of 2011 tourism grew further. Compared to the same period of the previous year, in Trentino the number of visitors rose by 3.1% (to 1.5 million) and accommodation by 0.5% (to nearly 6.8 million); in Alto Adige the number of visitors rose by 1.6% (over 2.5 million) and accommodation by 0.3% (with accommodation provided to over 12.3 million tourists). These results are mainly from the increase in foreign tourists (1.3% in both provinces), as opposed to a fall in the number of internal tourists (-0.2% in Trentino and -2.2 in Alto Adige).

The winter season (November 2010 to April 2011) was remained stable in terms of the number of visitors, however there was a drop in the amount of accommodation provided in Trentino (-1.9%) and in Alto Adige (-1.5%). The fall is mainly due to the negative trend in the national tourism market, which recorded a drop of 2.6% in Trento and 3.9% in Bolzano. The initial figures available for the summer season (until June for Trento and August for Bolzano) are positive in terms of visitors and accommodation provided, especially due to the contribution of foreign tourists.

The Employment Market

In the first half of the year employment trends were positive in Trento. Employment rose by 1.6% compared to the same period in the previous year. The employment rate stood at 66.3%, up since 2010.

In Bolzano the number of employed workers did not change substantially while the employment rate fell by about half a point to 70.6%. In both provinces the female component was particularly positive (up by 1.9% in Trentino and 1.1% in Alto Adige).

There were fewer applications for lay-off schemes. In the first half of the year authorised hours fell by 18.5% in Trentino and 51.6% in Alto Adige. In both provinces the drop mostly concerned the extraordinary component and derogation. In Q3 authorised hours rose again, driven by the regular component in Bolzano and extraordinary component and derogation in Trento: applications for lay-off schemes were less than in 2010. The decrease concerned all sectors with the exception of the construction sector in Trento where in the first nine months of the year authorised hours rose by 14% compared to the same period in 2010. Participation in the employment market remains substantially stable in both provinces.

Compared to the first half of 2010 the number of job seekers fell in Trento (-9.4%), and they rose in Bolzano (12.6%, entirely referring to the male component). The unemployment rate stood at 4.1% in Trento (down by one half a percentage point) and 3.2% in Bolzano (a slight increase).

In June 2011 loans provided by banks to residents in the province of Trento rose at the same rate as year-end 2010 (3.9%), the same as the North East and higher than the national average. In the province of Bolzano the rise was 3.2%, a slight decrease compared to December 2010 (3.4%), in line with the national average and less than the rise in credit in north western regions. In particular, in the province of Trento household loans decreased (from 4.7 to 4.2%), whereas business loans rose (from 3.3 to 3.8%). In June household credit rose in Bolzano by 4.7%, compared to 3.6% in December. Provisional data for August shows that loans in the province of Trento remained the same while there was a decrease in Bolzano.

In the first six months of the year receivable interest rates on short-term customer loans rose by over 20 base points, over 4% in both provinces. The effective annual percentage rate (EAR) on new long-term loans rose by over 40 base points in Trento and just over 20 in Bolzano.

Household Loans

Considering loans from both banks and financial companies under art. 107, in June 2011 credit granted to households in the province of Trento rose by 4.1%, down slightly from December (4.5%). Home loans from banks rose by 11.4%, despite the fact that rates rose by nearly 40 base points between December and June. Consumer credit rose by just under 1%.

In the first half of 2011 in Bolzano household loans rose to 4.2% (from 3% at year-end 2010). Home loans from banks rose by 14.3%, against a rise in rates by just over one quarter of a point. Consumer credit rose by 1.4% in twelve months due to trends in the banking component.

Bank Deposits

The trend in bank deposits (expressed at fair value) continued to be week, as reported in December, and lower than the one for loans. In the province of Trento in June 2011 household deposits remained at the same level as twelve months earlier (in 2010 they fell by 0.7%). Business deposits fell by 2% (compared to a 8.3% rise in December).

Bonds issued by Italian banks and held by households remained at the same levels as in June 2010, whereas those subscribed by businesses decreased slightly. In Bolzano bank deposits for households and businesses rose in June 2011 to rates similar to those in December 2010 (1.6% and 7.2% respectively). Bank bonds subscribed by households decreased (-1.2%), whereas bonds held by businesses rose considerably (10.5%).

Bank funds (deposits and bank bonds) from households and businesses remained substantially the same in Trento (-0.3%) and rose slightly in Bolzano (1.7%). Current account rates rose by about 20 base points on average in both provinces. In the first half of 2011 the securities portfolio of bank customers (expressed at fair value) shifted in its composition in favour of Italian government securities and UCI units, whereas the value of bonds fell slightly.

Veneto

In the first half of 2011 growth in the Veneto economy was weaker as a result of lower domestic demand and slowing global trade. Industrial operations slowed down in the first part of the year despite steady machinery sales to non-E.U. markets. Industry became even weaker in the summer as a result of the international financial crisis.

The high degree of unused production capacity and the rising uncertainty in the development of demand inhibited a recovery in investments. Cautious household spending contributed to the stagnation in the sales sector and there was a decrease in public investment and construction, already severely impacted during the crisis.

Tourism and transport benefitted from positive trends in foreign demand. Recovery in employment was weak due to lack of confidence and in consideration of the progressive re-entry of workers placed under lay-off schemes during the peak of the crisis. In the first half of the year recovery drove the demand for business credit while household loans decreased. During the summer months bank loans fell, thereby reflecting the weak demand and stricter credit conditions.

Industry

In the first half of 2011 industrial production continued to slow down. The slowdown began in the second half of 2010 and was made worse by low growth in global trade. According to a survey conducted by Unioncamere in Veneto there was a 4.3% rise over the first half of 2010 (5.9% in the second half of 2010). Foreign orders rose by 6.9%, down from 12.1% in the second half of 2010. Domestic orders rose by 2.7% (3.2 in the second half of 2010).

Production rose especially in the mechanical engineering and metal products sectors (by over 7.0%). Concerning the traditional sectors of "Made in Italy", the textiles, clothing and footwear segments saw production rise by 5.0%, whereas the timber and furnishings segments remained stagnant. Production for businesses with fewer than ten workers recorded a downward trend. Large companies on the other hand were able to offset weak domestic demand with sales abroad: for companies with over 250 workers the amount of exports making up their total sales rose from about 62% in Q1 2010 to about 67% in Q1 2011, which is at pre-crisis levels.

Signs of a further slowdown in the second half of the year came from a survey conducted by the Bank of Italy in September and October. Order trends in Q3 indicate a slight increase ending in the course of the year: in Q4 there was the same number of positive opinions as negative opinions with regard to industrial production trends.

In Q2 exports returned to their highpoints before the crisis, however, there was a slowdown due to weaker global demand and rising exchange rates for the Euro.

In the first half of 2011 over a third of total growth derived from the sale of machinery (29.5%) which especially benefitted from the high increase in orders from non-E.U. markets.

A significant contribution to growth came from "Made in Italy": exports of leather goods and footwear rose by 15%, the sale of textile products, clothing and furnishings rose by 9%.

The major increase in exports of metal products was mainly due to the record high metal prices in the first half of 2011. Sales in EU countries rose by 12.1%, driven by exports to Germany (18.2%) and new member states (20.9%).

A significant contribution came from sales in non-E.U. countries (+17.0%). Exports to Chine rose in particular (66%), which absorbs 4% of total exports and to the more dynamic economies in Asia, Russia and Turkey, where the increases are generally over 30%. The contribution from the United States is negative due to lower sales in shipyard products, which are typically varied.

The percentage of companies that expect to end the year at a profit is in line with the survey conducted last year (65.7%). Uncertainty in order trends and the unused production capacity inhibited any recovery in industrial investment. The number of companies that expect to spend less than planned is about nine percent more than those expecting to spend more. Over 63% of companies indicate that their expenses are in line with plans. 2012 programmes do not indicate any recovery in investments.

Foreign Trade

In the first half of 2011 export continued to recover (+14.0%) at current prices compared to the first half of 2010 (15.8% in Italy). Regional imports, which had risen in 2010, remained steady in the first half of 2011 due to lower automobile purchases (from EU countries and from Japan) and metals and metal products. On the whole, compared to the first half of 2010 growth stood at 13.9% (18.2% in Italy).

Construction

The construction sector felt the negative impact of lower household demand and public investment. According to a survey on the economic outlook in Veneto conducted by Unioncamere Veneto, in the first half of 2011 company turnover in the sector (which fell in 2008-10) dropped even further (-0.8%). Year-end forecasts are uncertain: according to a survey conducted by the Bank of Italy the value of production for companies operating prevalently in the public works sector was less in 2011 than in 2010.

According to CRESME data, in the first half of 2011 in the public works segment the number and total value of contracts for public works fell (-15.4 and -8.3% respectively). Moreover, the real-estate market continued to be weak. According to the Territory Agency residential real-estate sales dropped by 3.6% in the first six months and reached their lowest points in twenty years. Housing prices rose slightly in nominal terms (1.3%), but continued to fall when not considering the change in consumer prices. According to Nomisma the time needed for sales remained the same at about seven months. According to the quarterly survey conducted last October by the Bank of Italy, in collaboration with Tecnoborsa and the Territory Agency, the opinions of real-estate agencies concerning the conditions of the north eastern market in Q4 remained negative.

Services

Although there was a recovery for services affected by foreign demand (transport and tourism), there was a downturn for those more linked to domestic demand (sales). On the whole, the survey conducted by the Bank of Italy indicated that turnover in the non-financial private services sector remained stable in the first nine months of the year.

The Sales Sector

According to a survey on sales conducted by Unioncamere Veneto in the first half of the year retail sales fell by 1.7% compared to the corresponding period in 2010. The decrease concerned foodstuffs and other goods and it was less in large distribution (-0.8%) compared to small businesses (-3.8%). According to ANFIA, in the first nine months of the year car registrations fell by 10.8%, which is in line with the Italian national average.

Tourism

According to a survey on international tourism in Italy conducted by the Bank of Italy in the first seven months of the year spending by foreign tourists in Veneto rose by 11.9% over the same period in 2010. In the same period, which on average is about 56% of yearly tourists, total visitors rose by 4.4%. There were few national visitors (-0.8%) but this was offset by a rise in foreign tourists (7.7%). There was a significant increase in the number of visitors to cities of art (11.5%).

Transport

According to a survey conducted by Unioncamere Veneto on companies operating in transport, warehousing and logistics, in the first half of the year there was a 3.0% rise compared to the same period in 2010. The recovery in transport confirms data on heavy vehicle traffic on regional highways (+3.0%).

In the first eight months of the year container traffic through the port of Venice rose significantly (19.2% according to Port Authority figures). The movement of passengers confirmed the high growth rate last year, in particular with respect to pleasure cruise traffic (10.9%). According to Assoaeroport, in the same period the airport system in Venice and Treviso reported a rise in the number of passengers (9.1%) and goods (6.7%), despite the fact that the airport in Treviso was closed for construction work. The rise in passengers mainly pertained to Verona (12.6%).

The Employment Market

The slowdown in production and progressive re-entry of lay-off schemes during the crisis put a stop to the recovery in employment. According to ISTAT in the first half of 2011 there was a slight rise compared to the same period in 2010 (0.3%). This increase was due to employment trends in services (+0.7%), especially in restaurant and hotel services. This was offset by trends in industry and construction, where employment fell by 0.7 and 2.2% respectively.

Female employment, which was more impacted by the effects of the economic crisis, rose by 3.1% in the first half and benefitted from employment trends in services, where there is a higher proportion of female workers. Male employment, which is more concentrated in industry and construction, fell by 1.6%.

According to employment figures from the labour information system of Veneto the difference between hiring and termination in twelve months up to June 2011 was negative by about 5 thousand workers, which is 0.3% of workers employed in 2010. The decrease especially concerned Italian workers (over 11 thousand fewer jobs), while there was an increase in foreign workers with over six thousand jobs. The fall in open-ended contract jobs ended, while the number of temporary jobs rose by about one thousand. The number of trainee contracts continued to fall (over seven thousand).

The employment rate did not change significantly and remained at levels recorded in 2010 (64.7%). The number of job seekers decreased by 15.6% compared to the first half of 2010, which meant a 0.9% decrease in the unemployment rate (4.9%). At the same time the activity rate fell by 0.7%, mainly due to the rise in the amount of inactivity in the youth population. There were fewer applications for lay-off schemes. Fewer company crisis procedures were opened up at the provincial labour commissions, which showed a downward trend in the first three quarters of the year and indicated that the effect of company selection due to the crisis is gradually subsiding. In the first nine months of the year authorised hours under lay-off schemes (CIG) dropped by 36.1% compared to the same period in 2010. The decrease concerned all components (ordinary, extraordinary and derogation). Between January and September the number of workers on lay-off schemes (over 26 thousand) rose by 7% compared to the same period of the previous year. A number of companies undergoing difficulties for more time, and so unable to have recourse to extraordinary lay-off schemes, had to resort to collective lay-off schemes. The use of such schemes rose by 26.7% in the first three quarters of 2011. There was a slight decrease in the number of individual terminations (-1.4%).

Funding the Economy

Last June the number of bank loans, corrected for securitisation, rose YoY by 4.4% from 3.8% in December 2010. The rise subsided during the summer months. The rising credit in the first part of the year reflects the trends in lending to businesses, while there was a decrease in the number of household loans. Lending from minor intermediaries was substantially in line with the average recorded by the banking system. Credit to the production sector granted by banks and financial companies rose by 3.3% as at June. The rise in industrial production was reflected in the rise of lending to the manufacturing sector (4.0%), which was still falling at year-end 2010, while lending to the construction sector did not change significantly (-0.3%) mainly due to the higher company risk in the sector and the stagnant real-estate market. Lending to companies in the energy and agricultural sectors made up about half of the total increase in business loans, also as a result of the considerable investments made in the photovoltaic segment.

The higher capital needs related to the rise in turnover led to an increase in self-liquidating loans (11.0%), mainly consisting of advances on invoices and note discounting, while the growth rate of medium/long-term remained the same (1.9%). The higher costs for bank funding in relation to the tensions in the interbank market and sovereign debt were reflected in the conditions applied for business loans. Short-term interest rates rose by 0.25% to 4.8%.

In the construction sector the conditions are more stringent (0.45% to 5.9%). Interest rates on medium/long-term loans rose by 0.75% to 3.9%. The increase partially reflects the higher risk involved in debt restructuring.

Financial Savings

Lower household income and the employment situation had an impact on household savings. In June bank deposits for households in Veneto remained the same. There were lower current accounts but there were more repurchase agreements. Following the moderate rise in bond issues bank funding increased by 0.6% (-2.2% at year-end 2010). Amongst the securities held at banks by Veneto households there was a rise in the number of Italian government securities (14.7%) and, to a lesser degree, in UCI units (4.9%). Investments securities fell by 13.8%.

Friuli Venezia Giulia

In the first half of 2011 the recovery in industrial production and sales continued. They were driven by a considerable recovery in exports and nearly reached pre-crisis levels. However, the lack of confidence was reflected in the amount of fixed investments planned for the year, which was partially reduced. There was a 5% drop in unemployment and a decrease in applications for lay-off schemes, nearly 80% of which consisted in extraordinary measures and in derogation. In the first half of 2011 household loans from banks continued to rise due to the component relating to home loans. Lending to the production sector stabilised, though at limited growth rates: the lending needs for businesses were driven by capital needs and debt restructuring. The quality of credit, measured according to the incidence of non-performing loans at the beginning of the period, remained high for households while it worsened further for businesses. According to Confindustria in the first six months of 2011 sales for industrial companies based in Friuli Venezia Giulia rose in real terms by 6.6% compared to the previous year. The recovery in demand that began in Q3 2009 was driven more by the foreign component than the domestic component (10.2% and 2.4% respectively). Sales remained slightly lower than the highs reported at year-end 2007. According to Confindustria in the first half of 2011 industrial production recorded a 5.9% rise, just below pre-crisis levels.

According to ISTAT in the first half of 2011 the degree of utilisation of manufacturing plants amounted to 72.7%, a 3.2% rise compared to 2010. The number of companies that keep inventories of finished products above normal levels continued to fall. According to a survey conducted by the Bank of Italy company profitability continued to show signs of improvement: the number of companies that expect to end the year at a loss remained stable at about 32%, and those ending in profit rose from 51% to 60%. Despite the slight recovery in demand the continuing lack of confidence is reflected in company investment plans. Only 11% of industrial companies interviewed made a nominal expense for investments over the amount planned at year-end 2010, compared to 29% that invested less than planned. For 2012 nearly 15% of respondents intend to increase spending for investments, whereas one fifth expects to reduce spending. The number of companies that expect constant or increased funding needs remained stable (90%). According to Infocamere-Movimprese in the first half of 2011 the number of manufacturing companies active in the region fell further (by 1.4%) compared to the previous twelve months. Companies in the mechanical engineering, timber and furnishings sectors fell by 2.7%.

Services

In the first half of 2011 the number of active commercial businesses in the region fell by 0.7%, which continues the trend recorded in the same period the previous year. The number of companies in the transport and warehousing sectors fell by 2.8%: the decrease mainly pertained to land transport (-3.7%).

Provisional figures provided by the region indicate that in the first half of 2011 there was a 2.8% rise in the number of tourists to the area. The number of Italian visitors fell significantly but this was offset by a considerable rise in the number of foreign tourists (-5.4 and +14.1% respectively).

The recovery in exports continued, thereby confirming the trend recorded in 2010. In the first half of 2011 regional exports rose by 14.5% compared to the same period the previous year, in line with the average in the North East (15.4%). Without considering shipyards, which is characterised by long production cycles, growth amounted to 15.6%. In the mechanical engineering segment sales abroad rose by 13%. Shipyard product exports rose by 6.8%. In the mobile segment, which in the three years prior had recorded a considerable drop in demand, sales abroad indicated a weak sign of improvement. Exports in the steel industry continued to rise (39%) after the 4.7% drop recorded in the first six months of 2010. Foreign sales of electronic devices rose by 26%. Rising exports were driven by non-E.U. countries due to the increase in sales to Asia (46.5%) and the United States (43.3% without shipyard products). Exports to E.U. countries fell by 2.3%: the rise in sales to Eurozone countries, especially to leading trade partners Germany and France, only partly offset the fall in exports to other countries in the E.U..

Trends in the employment market in the first half of 2011 showed initial weak signs of improvement. According to ISTAT in the first half of 2011 workers residing in the region rose by 0.9% compared to the same period the previous year. In the first three quarters of 2011, employment rose by 1.4% for the industrial companies with fewer than 20 workers that participated in the Bank of Italy survey. The companies responding to the survey expect substantial stability in the number of workers employed by the end of the year. Compared to the first half of 2010 the workforce increased by 0.3% and the activity rate rose from 68.1 to 68.5%. The unemployment rate fell by six tenths of a point and stood at 5%. This decrease involved both males and females in the workforce. For the former the unemployment rate fell from 4.9% to 4.3% and for the latter it fell from 6.5% to 5.8%. The number of persons seeking employment fell from 30 thousand to 27 thousand.

In the first nine months of 2011 over 16 million hours were authorised under the CIG lay-off scheme, corresponding to nearly 13 thousand workers, which is down by about four million hours compared to the same period in 2010 (-20.2%). About 69% of the measures involved the extraordinary component with only a marginal contribution from the derogation component. The drop in authorised hours, which involved the ordinary component and the extraordinary component and in derogation (-31.8 and -16% respectively), was driven by the lower measures in the mechanical engineering industry (-40.1%). In the timber sector the rise in authorised hours continued due to the considerable increase in the extraordinary component (75.8%). Also in the construction segment the rise in authorised hours (9.7%) was due to extraordinary measures. In the sales sector the payment of salary supplements fell by 37.6%. According to the regional labour agency in the first nine months of the year 5,925 workers were laid off, down by 9% compared to the same period in 2010. About 67% of these were workers dismissed from small companies without any payment of indemnities in accordance with law 236/1993. According to Ergonet data processed by the regional labour agency in the first nine months of 2011 there was a 3.8% drop in long-term jobs, which amounted to a total decrease of 28.9% over the last three years. Female and foreign workers (-5.4 and -7% respectively) were most affected by the lower demand for workers. Open-ended hiring became even more scarce (-26.1%) and made up only 15% of the total. In the twelve months prior to June 2011 bank loans to customers residing in Friuli Venezia Giulia rose by 1.4%, without considering non-performing loans and repurchase agreements. The contribution came from a rise in household loans, at interest rates exceeding 4%, and business loans (1.1%). In the twelve months prior to June 2011 the growth rate of bank deposits held by households and businesses in the region rose to 2.5%. The fall in household deposits ended in July. The negative trend in current accounts that began in June worsened in August.

1.1.2. Economic, Financial and Risk Management

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 as a bank geared towards retail customers and SMEs.

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

An important factor in 2011 was the approval of the credit risk policy document. It sets forth the guidelines for managing all forms of credit risk as defined in the general risk policy (risk related to insolvency, change in degree of solvency, exchange rate exposure, loans portfolio concentration, remaining risk). In particular, the document regulates:

- Definition of risk propensity and scope of application, with explicit mention of the bank's values as a credit institution, with are applied in their annual credit strategy and management policies;

- The organisation model, specifying responsibilities and minimum activities assigned to each department involved;
- Description of the management process and credit risk control, which is divided into five fundamental steps, i.e., granting credit, position control and monitoring, risk measurement and quantification, stress testing, management of impaired loans;
- For each step there are specific essential activities in execution and monitoring and control, while making reference from time to time to internal documentation for details;
- Procedures for mitigating risk, i.e., the process for receiving and managing guarantees without overlooking any changes in asset requirements;
- The system for monitoring positions, which are based on four elements: regular monitoring through periodic review, monitoring trends using the internal rating system, the regulatory device and alert for positions at risk (early warning, CM), monitoring risk mitigation tools;
- Model for determining the likelihood of official default in the loans portfolio and quantifying expected and unexpected loss;
- Effects of credit risk on the bank's equity and financial statements: determining asset requirements for credit risk (pillar I); regulatory and internal limits for concentration risk (pillar II); criteria adopted for value adjustments on impaired loans.

In 2011 the early warning and CM (Credit Management) systems became fully operational. These systems make it possible to combine a daily system with 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 is regulated by specific regulations containing 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 financial statements and for which payment is expected within 12 months after qualitative and quantitative processing of the position.

Impaired loans that are defined as "single transaction", in other words customers with credit lines covered by real guarantee and exposed or overdue by over 90 days, undergo special monitoring by producing lists that are forwarded to the retail network to oversee positions. Similarly, positions that have been delinquent for a relatively long period are monitored more carefully also in consideration of the fact that starting in 2012 the current 180-day term of exposure for classifying positions as past-due is being reduced to 90 days.

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

- Regular monitoring of syndicated guarantee due dates, also for demand loans;
- Introduction of a specific credit line for advance payment and SBF loans able to identify potential risk deriving from the introduction of new PSD rules (Payment Service Directive) enabling debtors to request automatic payment reversals up to 8 weeks or 13 months after due (for unauthorised debits);
- New treatment of temporary bank guarantees for participating in public tenders, requiring a prior asset-backed guarantee and a leading bank guarantee, which bring forward the bank's actual exposure if the contract is awarded;
- Introduction of a structured procedure to assess real-estate assets for borrowers who request unsecured loans;
- Reformation of the "asset inventory" form in order to make it more complete and accessible when providing the reviewing loans;
- Definition of a specific decision-making procedure to provide a more accurate representation of credit lines granted to bank counterparties;
- Activate a monitoring process that makes it possible to extend timeframes for registering mortgages on loans that are still in existence after 20 years;
- Integration of the foreign procedure into the "irregular events" procedure to manage exposure from "irregular events";

- Change the "irregular events" procedure to enable private and corporate consultants to directly process and identify exposures with respect to their customers (until now the branch involved would process them after receiving authorisation from the consultant);
- Introduction of new and stricter guidelines on land registry items and extracts when providing and reviewing credit lines;
- Monitoring chamber of commerce data (Cerved) was extended to all provinces in our jurisdiction;
- Systematic risk assessment by sector when assessing credit line applications, including an analysis of the economic context in question and consulting the AIDA databank.

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 procedures for property used as mortgage guarantees in order to fully observe the eligibility criteria of such guarantees.

For that purpose, in 2011 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 (probability of insolvency and estimated losses), the calculation methods adopted and scenario analyses to verify loans portfolio behaviour should unexpected events occur. In 2011 the structure and quality of information was partially 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.

A defined system of limits that controls and steers the guidelines to limit exposure to concentration risk in the bank loan portfolio was 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. VaR is a single measurement system applicable to all financial instruments, thus allowing a comparison of risk figures calculated in terms of both time and daily profitability. For calculating VaR, the Bank uses the historic simulation approach with exponential weighting applied to the Murex computer platform which, since 2009, forms the integrated computer treasury procedure at Banca Popolare dell'Alto Adige.

In addition to analysing VaR and maximum sustainable losses, using specific limit systems market risk management is based 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 authorised risk limits, a standardised daily reporting system monitors and verifies how near positions are to reaching thresholds.

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. At these meetings a specific monthly report is submitted by the risk management department.

The risk management department also has the role of validating and checking the pricing system for financial instruments in order to maintain a reliable price profile that is consistent with fair value pricing.

Interest Rate Risk

With regard to the banking book, which corresponds to the Bank's range of commercial operations in relation to the conversion of maturities for all assets and liabilities, treasury and hedging derivatives, changes in market rate structure can have a negative effect on the interest margin and on equity, thereby constituting a source of risk (interest rate risk).

The management and investment strategies for this banking book are in line 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 procedures for managing interest rate risk are laid down by the Finance Policy, as well as related limits and operational powers for finance and liquidity. In addition two indicators have been identified, which are respectively inherent in interest margin sensitivity and current asset value sensitivity in the event of unfavourable variations in the interest rate curve.

Interest rate risk is overseen with the support of monthly reports on IT procedure using ERMAS by Prometeia. This model has been gradually streamlined to process all assets and liabilities in the banking book in a realistic and reliable manner.

In 2011 the banking book’s risk profile was also kept within the limits set by risk assessment with respect to interest margin sensitivity and asset value sensitivity.

Interest rate risk is checked and overseen systematically also by using specific monthly reports (“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 mainly 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, interbank relations and by sovereign debt, especially in the Euro area and in Italy, formed an element of constant attention in 2011.

Liquidity is managed in accordance with the instructions and operational guidelines contained in the liquidity policy, which is updated constantly. 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 and its oversight as well as emergency plans for times of crisis or Contingency Funding Plans (CFL).

Liquidity risk is measured using the Liquidity at Risk method (“LaR”), which assesses liquidity needs at different confidence levels over specific timeframes. Interest liquidity flows in the LaR analysis are daily imbalances not caused by bank decisions, or flows not “dependent” on the intent of the bank 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.

Specific committees constantly monitor the liquidity situation on a weekly and monthly basis. The Contingency Funding Plan also provides a system of alerts monitored by the Liquidity Monitor and based on the measurement of pre-alarm indicators sorted according to whether the indicators refer to a systematic crisis or a 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 addition, one of the major innovations introduced in 2011 is the activation of a liquidity synoptic panel, which is a daily report providing a concise yet thorough description of the short/medium-term liquidity situation, thereby enabling the bank to quickly identify critical situations and control indicators.

In 2011 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, especially in 2011, to several countries in the Eurozone, such as Italy.

The bank’s policy favoured maintaining substantial funds in liquidity reserves so that they would always be sufficient to deal with any stress conditions; all available instruments were used for that purpose including the most recent measure by the European Central Bank.

Operational Risk

Unlike credit and market risks, which the Bank inevitably assumes while being remunerated for such risk, operational risk may generate losses 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 exposed to fraudulent or accidental events.

For these reasons the Bank studies 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 on a national scale 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 process is based on an internal information system that detects all events in the category of operational losses, starting from the minimum threshold of Euro 500, 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 stored in 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.

A report on the situation of the bank’s operational risks is drafted to enable due assessment by the offices overseeing operational risk. They identify all the potential critical situations, define countermeasures to prevent them, and define the operational processes that need adjustment and those that have not yet been defined.

In 2011 activities were undertaken to place on dedicated IT media (Metastorm 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, which are periodically subject to analysis and assessment:

- Sales risk management, meaning the risk of losses as a result of unexpected falls in sales and/or higher operating costs;
- 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, which is the risk that the Bank might suffer from damage to image and credibility as a result of misconduct by individual employees or groups of staff. The Rules for Public Disclosure and Reputational Crisis Plan of Banca Popolare dell'Alto Adige were drafted and approved for this purpose.

1.1.3. Rating

In March 2011, the rating agency Moody's once again confirmed the long-term rating of Banca Popolare dell'Alto Adige at A2 "outlook stabile". Subsequently, in June 2011 the agency placed Italian sovereign debt "under observation". This had an immediate impact on debt valuation for all Italian banks, which had less support for the system.

Thus, on 23 June 2011 the outlook of Banca Popolare dell'Alto Adige dropped to "negative". Lastly, on 4 October 2011 Moody's first announced that Italy would be downgraded from to Aa2 to A2 and on the day after all institutions in the Italian banking system would be downgraded as well. Banca Popolare dell'Alto Adige was given a Baa1 rating with "outlook stable".

According to the agency their reasoning behind the measure was that most of the banks with lower national market share, such as Banca Popolare dell'Alto Adige, would have access to bailouts in case of need.

Following Standard & Poor's downgrading of Italian sovereign debt to BBB+/Negative/A-2 with outlook negative on 13 January 2012, on 10 February 2012 the rating agency also downgraded 34 Italian financial institutions. The rating of Banca Popolare dell'Alto Adige fell from BBB/Negative/A-2 to BBB+/Watch Neg/A-2.

1.1.4. Strategic Plan

In 2011 the 2012-2014 strategic plan was approved, which identifies guidelines over the next few years:

- Create value added for customers;
- Remain deeply rooted in the local economy and support economic development in the area of its customer base;
- Continuing improvement of performance.

The validity of the model was confirmed as a commercial bank with a focus on SME retail customers, together with increasing collaboration with large corporate customers.

The goal is to ensure that cover of business areas is kept high and diversified by offering a wide range of bank, financial, pension and insurance products.

The bank's objective is to maintain an adequate level of regulatory ratios by strengthening core capital and by introducing, where allowed, secondary forms of capitalisation (loans at varying levels of subordination). In terms of quantity, capital ratios are kept at levels that make it possible to ensure the best assessments by rating agencies.

Financial activities are considered an actual business segment that, in addition to providing traditional financial and liquidity support to the network and developing trading operations, it also handles asset management.

From an organisational standpoint the bank continues in the process to keep its organisation model in line with the ever-changing needs of the market. In particular, it is crucial to oversee changes in organisation by streamlining the corporate governance and support system in order to make the distribution network increasingly effective.

The bank's growth is also made possible by improving efficiency through streamlining and rationalisation of production and information processes.

Certain guidelines were determined in order to orient business in a targeted manner, responsibilise internal resources and ensure an adequate degree of control over results and adherence with the bank's values and mission. The guidelines can be outlined as follows:

- For the development of the territory and integration in the local social fabric the bank intends to maintain its market position in traditional areas and consolidate its presence in recently acquired areas;

- Stronger bonds with the territory are also created by strengthening its social base. Major initiatives have already been undertaken to valorise relations with shareholders and to extend its customer base while keeping to the spirit of mutual interest and cooperation that characterises the bank;
- Customer satisfaction will be pursued by focusing on local customers (retail, SMEs and large corporate) while remaining deeply rooted in the local territory and providing an integrated offer for all customers;
- Overseeing and monitoring costs in order to further streamline the central structure and network, also by developing process automation solutions, increasing productivity and outsourcing;
- Maintain a high degree of capitalisation and focus on funding tools able to ensure development within the timeframe in question;
- Rewarding staff by adequately developing the different professional profiles and skills in the structure.

1.2. Supervision, Oversight and Support

1.2.1. Corporate Governance

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

The extraordinary shareholders meeting held on 17.02.2011 introduced slate voting for appointing board members. Now the articles of association lays down that slates are valid when they are signed by submitting shareholders who:

1. Represent at least 1% of the shareholders at 31 December of the year prior to the meeting passing the vote (the number is rounded up to the next 50); or
2. Hold at least 0.50% of shares in 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. Each candidate can run on only one slate. 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:

1. 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;
2. 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.

The new system was applied for the first time by the Shareholders' meeting held on 27.04.2011 to appoint four new directors with the approval of the year-end financial statements at 31.12.2011. The Shareholders' Meeting called:

- The first three candidates from the majority slate submitted to the Board of Directors: Marcello Alberti, certified public accountant in Bolzano; Alessandro Marzola, entrepreneur in Bressanone (BZ); Rudolf Christof, entrepreneur in Appiano (BZ); and
- The first candidate from the minority slate: David Covi, attorney in Bolzano.

Organisation of the Shareholders' Meeting, Electronic Voting

The Shareholders' Meeting held on 27.04.2011 adopted for the first time electronic voting procedures to vote on slates. The system streamlines meeting proceedings, brings counting time to zero and makes it possible to know and check the outcome immediately as well as maintain secrecy, without prejudice to the guarantees required by the articles of association.

Remuneration Policy Update

In order to implement the EU legal framework and with the abrogation of the previous supervisory law, on 30.03.2011 the Bank of Italy issued new "Legal rules on remuneration policies and practices and incentives in banks and bank groups", also ordering banks to adopt corporate policies that are compliant with such rules and submitted to the shareholders' meeting for approval.

Considering the requirements of the rules, the shareholders' meeting of 27 April 2011 instructed the Board to consider certain areas when preparing the remuneration policies. In compliance with these rules on 22 July 2011 the Board of Directors drafted the new policies to be submitted to the Shareholders' Meeting on 17 April 2012 for approval.

In particular, the new rules, inter alia, include:

1. Identifying "key" staff for recruitment and risk control, or the categories of workers whose professional activities have or might have a significant impact on the bank's risk profile;
2. Indicating ratios for applying supervisory rules;
3. Indicating parameters for correcting results and defining criteria for revising deferred bonus amounts.

Management of Conflict of Interest and Transactions with Related Parties

Starting from 1 January 2011, any risky operations or transfer of resources, services or obligations enacted by a bank with "related parties", meaning anything that is potentially able to have an influence on the decision-making process, are subject to the procedures laid down by CONSOB in Regulations 17221 of 12.03.2010, while the new supervisory rules by the Bank of Italy on risk and conflict of interest with "associates", under consultation since May 2010, remained open until 12 December 2011 and shall be applied in 2012.

Procedural rules related to transparency and – from 2012 – credit limits for such transactions shall ensure adequate oversight for transactions with parties that are in potential conflict of interest: this includes company representatives and other parties able to influence the bank's actions. CONSOB and the Bank of Italy give each bank the power to adopt the best procedures to oversee transactions with such parties.

To ensure compliance with authorisation, disclosure and reporting procedures on 1 January 2011 the bank implemented systems for automatic acquisition and notification of agreements and transactions undertaken with certain counterparties:

- "related parties", which include:
  a) Members of the board, statutory auditors, executives;
  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;
- "associated" to Banca Popolare dell'Alto Adige, including:
  a) Companies controlled by a party related to Banca Popolare dell'Alto Adige;
  b) Parties that control the related party indicated under letter (c) or subject to joint control by the related party;
  c) 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);
  d) Companies, also without legal personality, where a party indicated under letters (a) and (f) holds considerable influence.

In the meantime, due to the complexity of the legal framework in question (the new legal rules are added to pre-existing legislation, the consolidated bank act and EU regulatory provisions) in 2010 the bank implemented a special application to manage conflict of interest and migration was completed in September 2011 for counterparties under (i.) art. 136 TUB, (ii.) IAS 24 related party disclosures / EC Regulation 1126/2008 and (iii.) CONSOB Regulation 17221/2010.

The application is still being developed and improved in order to ensure automated management of all phases in the operations process to (i.) identify; (ii.) track according to specific indices; (iii.) where needed, follow a particular decision-making procedure and (iv.) report according to certain obligations on transparency and reporting; transactions with related parties and associates. CONSOB sets certain thresholds to sort such transactions by degree of significance, which determines 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:
  - significance of value (of the transaction in relation to the Bank's regulatory capital);
  - significance of assets (of the company/other business in relation to the total assets of the Bank);
  - 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.

Not included are (i.) transactions involving insignificant amounts; (ii.) ordinary transactions under market or standard conditions; (iii.) transactions with subsidiaries; (iv.) transactions carried out to comply with supervisory instructions in the interest of bank stability; (v.) remuneration according to the remuneration policy and resolutions passed by the Shareholders' Meeting or related thereto.

Organisation and Corporate Governance, Application of Supervisory Rules

A high-quality organisation structure and corporate governance system is fundamental to ensure conditions for prudent and healthy management that promotes stability and economic growth. The Bank of Italy sets guidelines and general standards for governance systems, especially with regard to rules on:

- financial structure and dialogue with ownership;
- configuration and operations of company bodies;
- prerequisites for company representatives and role of directors;
- organisation structure and oversight of internal audits and risk management;
- overseeing conflict of interest.

These rules are set forth in the "Organisation Project and Corporate Governance" introduced by board resolution dated 25 June 2009 and in 2011 amendments were made to take into consideration context developments. They are still being amended, especially with regard to rules on company organisation structure.

Administrative Liability under Legislative Decree 231/01

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 against white-collar crime.

The decree is applicable to all offences referred to therein and those committed by natural persons in the interest of the organisation (when there is wilful intent or where the offence, especially by top management, expresses the intent of the organisation) or even only to its benefit (when the offence committed by a natural persons brings economic benefit to the organisation or makes it more competitive).

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.

The entity is not held liable when it pre-emptively adopted and effectively implemented a suitable organisation model to prevent such offences and set up an independent body for that purpose (e.g., Supervisory Board).

If the offence is committed by an executive, the latter should prove that the offence was committed by fraudulently breaking the rules of the organisation and management model adopted.

Adoption of Organisation and Management Model

The organisation model of Banca Popolare dell'Alto Adige, which was approved by the board of directors on 21 December 2010, complies with the specific prescriptions laid down by legislative decree 231/2001.

With its adoption Banca Popolare dell'Alto Adige continued to affirm and spread its corporate culture based on:

- lawfulness, as no unlawful conduct, regardless of whether it is in the interest of the bank or to its benefit, shall be considered in line with bank policy;
- prevention and continuing control, which should guide all decision-making and operations.

The organisation model of Banca Popolare dell'Alto Adige consists in identifying activities exposed to risk (i.e., those involving offences under Legislative Decree 231/01) and laying down counter measures and rules for all parties working in the interest, to the benefit or on behalf of the Bank, in order to:

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

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:

- Offences committed under relations with Public Administration;
- Administrative offences resulting from market abuse;
- Company offences;
- Offences related to handling, laundering and use of illegally gained goods, services or money;
- Offences related to computer crime;
- Offences related to copyright violation;
- Violation of regulatory provisions on health and safety at the workplace;
- Inducing persons to provide misleading statements or not to provide statements to court authorities;
- Counterfeiting coins, tender, revenue stamps and instruments or recognising such;
- Offences related to terrorism or disrupting democratic order;
- Offences against the person;
- Mutilation of female genital organs;
- Offences related to organised crime;
- Cross-border crime (Law no. 146 of 16 March 2006);
- Environmental offences;

For each of the offences resulting in administrative liability under decree 231/2001, the organisation model:

- specifies the sanctions laid down by lawmakers (pecuniary and prohibitory where applicable);
- identifies conduct considered open to risk;
- specifies the obligations and/or prohibitions for whoever works at Banca Popolare dell'Alto Adige.

The areas/operations open to risk are indicated for each of the offences that are considered high-risk (chapter 7, "Risk Exposure Scheme").

All employees (both executives and subordinates) are required to know the organisation model of Banca Popolare dell'Alto Adige and respect the rules that supplement the Code of Conduct 231, which are based on the general principles laid down in the Code of Ethics.

Any violation of the model shall be punished in the manner and under the terms described in the model itself.

Supervisory Body under Legislative Decree 231/01

The Supervisory Body (SB) is responsible for overseeing the model, including compliance and revisions.

The Supervisory Body was set up by the Board of Directors. It exercises its duties and powers independently from bank management and departments.

The Supervisory Body and each of its members are completely independent and not subjected to the will of other bodies in the bank.

The Supervisory Board of Banca Popolare dell'Alto Adige consists of the following members:

- Compliance Manager;
- Internal Audit Manager;
- Legal Department Manager;
- One standing member of the Board of Statutory Auditors;

- One external legal expert (attorney) in possession of specific skills and experience.

Revision of Organisation Model

In 2011 the Organisation Model was revised as follows:

- A special addition was made to the model to introduce art. 25-undecies under legislative decree 121 of 7 July 2011 to include environmental offences within the range of offences involving administrative liability;
- Adoption of recent positions in case law related to corporate crime;
- Revision of risk exposure scheme following the bank's new organisation chart (approved by the Board of Directors on 20.12.2011);
- Extension of section on information to the Supervisory Body (in terms of more structure and details when assigning responsibility, involving company bodies and department heads in the obligation to provide the SB with information required under legislative decree 231/2001);
- Role and responsibility of the Supervisory Body with regard to specific disclosure obligations attributed under art. 52 decree 231/2007, duly revised in light of the Bank of Italy's order issued on 10 March 2011 and ABI Legal Circular no. 14 of 8 June 2011, which clarified the scope and criteria for implementation;
- Revision (by renaming) the section on corporate governance following the bank's new organisation chart.

The new organisation model was approved by the Board of Directors on 27 January 2012.

In 2011 organisation model training was provided to all bank personnel (both executives and subordinates) according to role and responsibility.

Only one minor violation was reported by the Supervisory Board. This stands as proof that the information is adequate for the Supervisory Board to fully oversee the model, assess its effectiveness and handle its revision.

1.2.2. Human Resources

The Workforce

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 members 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 primary objective of the human resources department is 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 mandatory interviews are held to assess performance and behaviour, 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 2011 there were 1,105 workers, down slightly from 2010 (1,117). Given the reduced working hours of workers with a part-time contract (148 – unchanged compared to 2010), absences due to maternity leave (37) and unpaid leave (31 – 23 in 2010), the average number of workers in 2011 was 990 FTE (full-time equivalent), also down from 2010 (997). The negative employment average of 7 workers (-0.7%) compared to 31/12/2010 is due to the effect of 46 new recruits against 48 terminations and the higher number of workers on unpaid leave.

68.07% of workers (674 FTE) pertained to the network (679.49 in 2010). The remainder (31.93%), or 316.20 FTE, pertained to internal services (317.46 in 2010). Compared to previous years there was a slight decrease in internal service workers due to reorganisation schemes, despite the continuing centralisation of administration.

The number of female workers rose from 42.5% in 2010 to 42.99 % in 2011. The average age of workers was 41. The average age of female workers was 38.

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 1,105 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 compared to the previous financial year.

Province	31.12.2011		31.12.2010	
	No. Workers	%	No. Workers	%
Bolzano - internal services and branches	790	71.49 %	787	71.1%
Trento	90	8.14 %	91	8.2%
Belluno	87	7.87 %	87	7.9%
Venice	71	6.42 %	73	6.6%
Treviso	55	4.98 %	57	5.1%
Pordenone	12	1.09 %	12	1.1%

Staff Training and Development

The bank's strategic edge is its specially trained and highly qualified staff, which face the everyday challenges with professionalism and cordiality; they are key to the lasting success of any company and especially in the financial services sector.

The banking sector is under rapid development and its complexity has increased. Customers are ever more informed and thus have high expectations for professional consultancy and assistance. The increasing regulations of the banking sector at European and national level imposes additional requirements and demands.

Training for staff working directly with customers when presenting investment services is planned by the Compliance Office, which provided a positive opinion on educational material for private banking and financial subjects.

The Bank deals with the increase in such demands by adopting training and professional development measures. In 2011 the Bank invested heavily in training involving 99% of staff for a total of over 62,800 hours, down slightly from the previous year due to fewer new recruits.

The bank's training programmes include the following initiatives:

- Company courses at national and international institutions. Specific and direct training sessions for highly specialised personnel;
- Internal courses: professional courses held by instructors employed by the bank and/or instructors from external institutions;
- Mandatory training: to cover any issue needed, while providing monitoring tools accessible by participants and each worker thereby enabling them to check their status with regard to current and planned training;
- Multi-level training: various levels of training are defined when introducing projects or important innovations, starting from classroom courses, training and specific support. Special multipliers determine subsequent participants, who then transfer knowledge systematically until all workers are covered;
- Language courses: under its strategy and bi-cultural orientation the bank offers language courses to all its workers. In 2011 over 2,100 hours of language training was provided to learn German (for Italian speakers) and Italian (for German native speakers). These courses are offered in all provinces where we operate. English courses are also organised at two levels for internal services experts, who often work with foreign offices;
- Individual coaching: there are two types of coaching offered: individual executive coaching with internal and external experts and individual consultant coaching for network staff. This professional coaching provided by private and corporate consultants enable a continuing exchange of experiences, and they are a direct means to understand the needs of workers when assessing customer needs and sophisticated products and services offered. Issues learned this way are processed and then become a part of specific training programmes and made available for business development;
- Actual case studies: experts from the credit department assess procedures undertaken by branch offices to manage credit positions that became past due or impaired thus enabling branch staff to gain insight on the causes and prevent them;
- On-the-job training: specific on-the-job training at the workplace with the support of a tutor from the human resources department or the support of branch managers;
- Training at branches: branches close in the afternoon on a monthly basis. Training sessions are held and circulars are studied and discussed during this afternoon;
- E-learning: e-learning was extended in 2011: The e-learning modules developed by the company specialised in the sector ensure high quality standards of issues dealt with and technical quality, also with extensive use of

multimedia content (animation, audio, interactive tests, webfictions, etc.). Content and tests are designed and produced in collaboration with external and internal services experts thereby making the training programmes highly customised to suit the specific needs of the bank. In particular, an integrated approach using blended learning was used which covered several features: self-study units (e-learning) enable high-quality learning for theory followed by class time to handle actual examples and solutions to put theory into practice. This increases the quality of training significantly. Another advantage of the e-learning units is the ability to make flexible use of one's workstation and to allow workers to learn at their own pace. In addition travel time to reach the course location is saved.

A further important component for increasing the quality of training is the use of admission and final tests. Through admission tests participants show they have the basic knowledge needed to follow the course successfully. By starting off at the same level participants are more inclined to exchange experiences and follow the lessons more attentively. Courses end with a final test.

Every training and development initiative starts off by setting learning goals to be achieved following a programme setting out specific content and methods for implementation.

At the end of the course feedback is provided by participants and teachers. This feedback is studied and compared to other assessments.

The following subjects were handled in 2011:

- Banking technical content at various levels;
- Updates and changes in procedures and organisation;
- Mandatory training on anti-money laundering rules, MiFID, safety at the workplace (Law 81) and robbery prevention;
- ISVAP certification (for insurance consultancy);
- Management training and development;
- Seminars for personal training;
- Courses on communication skills and sales techniques;
- Language courses.

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 includes a detailed description on scheduled courses, past courses attended, test results, feedback monitoring and registration forms.

Yearly Worker Interview

At Banca Popolare dell'Alto Adige the yearly interview with workers is an essential tool for managing human resources and for determining training needs. The interview enables direct worker assessment and also provides an internal tool (forum) for superiors and human resource managers.

1.2.3. Internal Audit

Internal audits are performed by the Bank's internal audit department. It performs its duties with specific inspections using a system aimed at assessing the intrinsic riskiness of particular segments. It intervenes whenever there is any misalignment between the internal control system, business model and bank governance system 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 (revised in 2011) IIA issued new professional standards for Internal Audit (International Professional Practices Framework - IPPF). Their three binding elements define internal audits, the code of ethics, 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 on new processes and rules), in 2010 the Internal Audit Department of the Bank adopted a revised "Internal Audit Charter", approved by the Board of Directors.

The "Internal Audit Charter" 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 audit system, risk assessment, code of ethics, as well as references to professional standards. The charter specifies the criteria for independence and sets the hierarchy for the internal audit office: the Board of Directors is in charge of approving the budget and remuneration for the Internal Audit Director, while the department reports to the General Manager.

In addition to the "Charter" the Internal Audit department uses a revised "Internal Audit Manual", which describes the main methods used for internal audits. In particular, standard work schemes are regularly updated for inspecting the retail network. The manual reflects the new direction of internal audits towards risk and control assessment. In particular, a risk pyramid was inserted, which describes the hierarchy and the relation between primary bank risks (operational risk, credit risk, market risk) according to degree of intervention and how these risks are handled 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.

1.2.4. Compliance

Compliance and Code of Ethics

The mission of the Compliance Office is to identify, mitigate and monitor compliance risk. This is the risk of not complying with laws, regulations or governance codes and any rules that protect the reputation of the bank and the quality services provided to customers.

The Compliance Office operates independently and reports directly to the Board of Directors, which is the natural recipient of the assessments fulfilled.

The main responsibilities of the Compliance Office concern:

- Governance and management of the compliance process and overseeing matters that have a significant impact;
- Consulting, assistance and training in matters concerning compliance;
- Periodic assessment/check of compliance conditions;
- Submit reports to upper management and company bodies;
- Relations with Supervisory Authorities.

Before adopting the oversight system to mitigate non-compliance risks the Compliance Office provides consulting and assessments on its adequacy. After implementation the office checks that oversight actions are consistent with operational behaviour and that over time they are kept efficient in mitigating risk. The main areas in question are listed below:

- Investment services;
- Market abuse;
- Conflict of interest;
- Transparency;
- Privacy;
- Insurance brokerage;
- Corporate governance, including remuneration policies;
- Related parties (CONSOB) and associated parties (Bank of Italy);

- Monitor new regulatory provisions in order to keep the organisation model up-to-date under legislative decree 231/01;
- Complaint management;
- Amendments to code of conduct and code of ethics.

In accordance with the 2011 work schedule, during 2011 the compliance office focused on the following:

- Audit report (22);
- Consultancy report (4);
- Monthly reports to the Board of Directors (9);
- 2011 operations report approved by the Board of Directors on 10.02.2012.

The operations carried out during the year confirmed the bank's compliance, thereby confirming the correctness of the office's work.

The proactive and prudential oversight of the compliance office helps promote the bank's solid and high reputation.

A good reputation implies trust in the organisation, as an institution that adopts business and relation policies with stakeholders.

Since protecting reputation means complying with the standards set out in the code of ethics the compliance office takes on an essential role in protecting the bank's image.

The bank's focus on overseeing correctness in day-to-day operations – correctness meaning, in the strict sense, complying with legal rules and, in a broad sense, ensuring the best operational practices as set out in the code of ethics – is a major plus in assessments made by stakeholders, who can approach the bank with more trust and higher confidence.

Efficient and effective compliance control helps build up a good reputation. It is a deterrent against unlawful acts and improper conduct, which can undermine the trust of the bank's stakeholders.

The bank's compliance office is a great asset for both consumers, whose rights and complaints are followed by the bank, and for the bank itself as its reputation is raised even higher by overseeing compliance.

Thus, the compliance office and the other internal audit offices embody the aim of supervisory authorities, which is to adopt rules to raise management's awareness of the risks the company is exposed to.

Complaints

Banca Popolare dell'Alto Adige firmly believes that long-lasting growth and development is possible only if the customer is placed at the centre of a mechanism to create value.

This focus on the customer, which is based on the bank's code of ethics, emerges already during the planning stage for products and services, constantly oriented towards the search for high quality but especially customer relationship management, so that they are always provided with the most suitable product or service to meet their needs.

Despite the commitment of workers and considering the great quantity of transactions handled by the bank daily it is highly unlikely that customer expectations will always be met to the fullest, which means there will be a certain degree of dissatisfaction.

On these occasions collaboration with customers is essential to enable the bank to identify and remove the cause of any poor service and also to improve procedures.

Our bank has a special office to manage complaints and, in compliance with the law, refers to special bodies to settle any disputes with customers out of court.

The special complaints management office is staffed by workers that are independent from the organisation and sales departments, which enables them to be objective when assessing complaints.

If the solutions provided by the bank do not satisfy customers, whether partly or entirely, they can turn to the out-of-court system to settle their dispute. As they operate differently from ordinary judicial authorities the dispute is handled more quickly and at a lower cost.

On this point, customers can obtain an information kit from the retail network or from the bank's website. The kit contains extensive information including the rules on how complaints are handled and the bank's system for settling disputes.

Moreover, statistics on complaints received by 31.12.2011 are also published. During the financial year 257 written complaints regarding bank and investment services were received and processed. 246 of these were taken care of by 31 December 2011, while 11 are still under assessment.

Code of Conduct for Internal Dealing

The Code of Conduct for Internal Dealing describes the obligations held by certain parties (significant parties) when they perform financial transactions involving securities and stock options issued by the bank, and it sets out the disclosure requirements held by the party in charge of handling such information.

The version of the code adopted on 8 April 2011 improves the previous version while place more focus on innovations introduced in 2010:

- Removal of the obligation for significant parties to disclose transactions involving 2,500 or more shares per quarter, while a special internal check was introduced to monitor this threshold;
- Under the code the range of significant parties was extended to include certain bank collaborators with full access to information and data as they are involved in overseeing, managing and monitoring the financial instruments issued by the bank.
- More detail on the definition of parties “associated" to significant parties under the code.

Anti-Money Laundering Regulations

Money laundering and funding terrorism are activities that, also due to their international nature, pose a serious threat to the economy and can have destabilising effects, especially on 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.

By decree of the MEF (Ministry of the Economy and Finance) of 18.8.2008, Italy published a list (“White List”) of non-EU countries that adopted the similar obligations to those provided under Directive 2005/60 (see below). With this decree Italy implemented an agreement reached by member states on 18 April 2008 to prevent money laundering and funding of terrorism as provided under art. 41 of the Directive.

Around the world essential actions were undertaken by the Financial Action Task Force (FATF) to raise awareness and set standards. FATF was set up by the G7 in 1989, and it is composed of representatives from leading financial markets. This body provided a set of internationally recognised rules (40 + 9 recommendations) containing a group of measures to prevent and fight money laundering and funding of terrorism in order to give guidelines to states in their efforts to prevent money laundering in the financial system and international cooperation.

The FATF issued the 40 recommendations on the prevention and fight against money laundering in 1990 and amended them in 1996 and 2003. Following the extension of their mandate to deal with funding for international terrorism the group issued an additional 9 special recommendations on the issue in addition to several guidelines to assist member states in implementing resolutions passed by the United Nations against financial flow supporting the proliferation of weapons of mass destruction.

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. 31 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.

According to the traditional approach the rules are intended to protect the system from the risk of being used, also inadvertently, to perform unlawful acts. They call on operators to collaborate actively by reporting any suspicious transactions.

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

a. Adequate verification of new customers or persons with whom transactions are made (customer due diligence);

b. Logging relations and transactions and conserving related documentation;

c. 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.

The primary rules were amended, and continue to be amended, by the various supervisory authorities (MEF, CSF, Bank of Italy, UIF, AGE).

One that should be mentioned, since it is most relevant to this report, is the Bank of Italy provision of 10.03.2011 on "legal 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 fulfil the obligations outlined above and to ensure effective risk control it is essential to set up adequate safeguards within the organisation. Their structure should be structured according to the specific activities conducted by the Bank as well as its size and operations.

As described extensively in the 2010 report, in 2010 the bank had already set up a robust structure against money laundering and it was placed under the Compliance Office.

Therefore, the rules of the Bank of Italy of 10 March 2011, which became effective on 01 September 2011, required only minor changes to the organisation structure, as described in the new "Anti-Money Laundering Policy" approved by the Board of Directors on 26 August 2011. In particular, these rules provided for certain basic prerequisites, such as:

- Independence;
- Report directly to top management;
- Access to all bank activities and any significant information;
- Have adequate resources, in terms of quantity and quality, to perform their duties, also by endowment of a budget that can be activated independently;
- An adequate number of staff members handling anti-money laundering duties should have adequate technical and professional skills and they should be trained on a continuing basis by following special training programmes on the matter;
- Coordinated by a manager appointed by the Board of Directors.

Concerning operations, 2010 was still a year that was mainly dedicated to taking care of certain points raised by the Bank of Italy after their inspection in 2009, 2011 was mainly dedicated to major changes in the entire anti-money laundering system under "Masterplan 2011". This guide was constantly updated and has been a major aid in the continuing effort to improve internal procedures. Each factor is described below according to subject in relation to anti-money laundering.

In 2011 the following actions were undertaken:

a) Revision of oversight procedure with publication of new guidelines;

b) Substantial completion of revision of internal manuals on anti-money laundering (Doku system and guidelines – ARIBAN to be completed);

c) Amendments to rules on circulation of cash and bearer securities (savings accounts) in August and December of 2011;

d) Updates to internal procedure to alert suspicious transactions under art. 41 of legislative decree 231/07 and notification under art. 49 of the same decree;

e) Significant increase in oversight of cash transactions made by customers;

f) Approval and adoption of anti-money laundering system and policy by the Board of Directors;

g) Increase in quality and quantity of 2nd level inspections, especially with respect to recording movements in the consolidated electronic registry ("AUI");

h) Significant increase in information flow towards corporate bodies;

i) Specific oversight of 50 major positions originating from the last tax amnesty scheme;

j) Improvement in quality of IT system dedicated to anti-money laundering (Oasi-Gianos system);

k) Major improvement in quantity and quality of training, both internal and external;

l) Self-assessment by the Compliance Office on the issue of anti-money laundering according to specific control matrices, which shall move to the anti-money laundering office in 2012 (as the 2nd level oversight body).

1.2.5. Risk Management

Concerning risk measurement and management, 2011 was characterised by the dissemination and instilment at all levels of management, of the BPAA Risk Management Policy, whose yearly revision was passed by the Board of Directors on the 21 October 2011. This essential document includes an organic and systematic description of the policies for identifying, measuring, managing and controlling risk and the conditions for assuming such risks.

In the new version of the document risk classification is revised, extended and more detailed, especially with respect to risk factors concerning liquidity management. In general, the entire risk assessment process was improved, especially the criteria and methods used in the quantitative approach to define clear and specific thresholds for determining the significance of each risk for all 39 different types of risk grouped into 10 risk classes. A 5-level scale is used ranging from "high risk" to "insignificant risk" or "not applicable".

The goal is to draw a complete picture of significant risks held by the bank. Two types of risks were determined as “high risk”, whereas four types are considered as “medium-high risk”. The remaining 33 types of risk are classed from “medium-low” to “insignificant”.

To complete risk assessment and ensure adequate control and oversight of risks, especially for average and high risks, the system used for measuring and monitoring them was tested according to 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.

The internal classification and regulatory classes for each risk are converged and a explanation is provided on the method used to calculate comprehensive internal capital in the internal capital adequacy assessment process (ICAAP).

In direct relation to the main document, in 2011 a series of policies and internal rules were defined or drafted to provide details on how to manage specific risks. In particular:

- the “Finance Policy” with the annex setting forth the “policy on limits and operational powers for finance and liquidity”, which regulates risk management with respect to the market, exchange rates and interest rates;
- the “Security Valuation Policy”, which describes the processes and procedures in the valuation of assets/liabilities under financial instruments in the financial statements;
- the “Liquidity Policy”, which is structured so as to define guidelines to manage operational and structural liquidity while setting strategies and procedures to manage liquidity risk and monitor the bank’s net financial position and prepare emergency plans;
- the “Credit Risk Policy”, approved on 20 December 2011, which regulates in full and in a single document the entire credit risk management system according to the continuing developments in risk control processes set up in recent years;
- the “loan valuation policy for financial statements”, which describes the methods used for the purpose of measuring the value of loans to customers, in consideration of regulatory provisions and accounting policies.

In 2011 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, Audit and Executive Responsible for Financial Statements).

As in the past, in 2011 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.

Again in 2011 the new Basel 3 framework was dealt with on several occasions and at varying degrees of detail. With the new framework regulatory authorities intend to strengthen rules governing the international banking system by introducing a new definition of regulatory capital with stricter requirements in terms of quality and by providing additional measures to reduce procyclicality of rules (buffer capital) and setting limits on financial leverage while promoting new rules on liquidity management.

The new rules shall come into effect gradually starting from 2013 and their impact on the bank was assessed. Activities have begun to comply with the rules with the support of the service centre. According to assessments the quality of capital is good, financial leverage is low and the traditional business model, which is essentially linked to financing the real economy, should make it less costly to comply with the new rules. A special section on the issue was included in the risk policy.

1.2.6. Executive responsible for the preparation of corporate accounting documents

Italian Legislative Decree no. 195 of 6 November 2007, transposing EC Directive 2004/109/EC on the harmonisation of transparency requirements (“Transparency Directive”), partially extended the regulations in Law no. 262 of 28 December 2005, which incorporated “Provisions for safeguarding savings and governing financial markets”, thereby amending Legislative Decree 58/1998 (Consolidated Law on Finance) also to companies issuing securities for trading in regulated markets.

The rules give specific responsibilities to the executive responsible for the financial statements in order to ensure a true and correct view of the issuer’s equity, economic and financial condition.

These activities are a part of the internal audit system.

For that purpose the executive drafts a report on the financial statements and abridged six-month report certifying their adequacy and application of administrative and accounting procedures when preparing financial statements and any other financial disclosure and certifying that the documents and accounting records correspond.

To issue the statement the executive ensures the internal audit system for financial reporting is adequate and effective:

- by checking the company system to reduce the risk of error or improper conduct in financial disclosure and reporting;
- by checking company operations for generating and developing financial reporting also by using results provided by other audit and control offices; for that purpose the scope is determined to identify the significant processes that need checking.

Banca Popolare dell’Alto Adige is in the process of defining a model that is in line with national standards in order to improve the reliability of its financial reporting, which includes processes for gathering, processing and disclosing economic-financial information.

1.2.7. Legal

The Service for Bad Debts is in charge of minimising the current net cost of managing non-performing loans and maximise profitability from loan management. Bad debts are managed to find solutions that maximise economic benefit for the bank. In this context it is also important to assess timeframes in relation to legal action, where seizable assets appear to be sufficient to recover the amount in full or a significant part.

In 2011 collections from bad loans amounted to over Euro 30 million. Assessment and management of bad debts have also improved, also due to the introduction of an agreement with leading law offices for most ordinary debt collection.

The Legal Consultation Office provides legal support to internal structures and the retail network. It manages pending legal proceedings against Banca Popolare dell’Alto Adige with the collaboration of the law offices under the agreement. It also manages relations with legal authorities and law enforcement. Lastly, it manages real-estate seizures where the bank is the third party in the seizure.

1.2.8. Technological and Administrative Services

Information and Communications Technology

The bank offers customers new opportunities by introducing new technologies to aid communications with them. In 2011 new services were introduced on the internet banking platform to extend the range of products offered online. Customers are given the possibility to order a prepaid debit card and ATM card and even apply for a loan of up to Euro 15,000 all over the internet.

These services now require the customer into the branch for certain formalities, however, starting in March of this year we will be the first bank in Italy to make all of these services fully automated by using a digital signature. Banca Popolare dell'Alto Adige maintains its position as a forerunner and innovator in providing bank products and services over virtual channels.

In collaboration with SEC-Servizi of Padua, in 2011 the bank contributed to the development of a new platform to introduce a virtual assistant in the retail network. The virtual assistant acts as a teller, an investment consultant or even a loan officer processing a credit line application. This platform is a launch pad for high-quality and prestigious bank services that comply with all legal rules in force and concern all transactions for our customers. All network staff can have access to reliable systems and guides in support of operations.

In this day and age it is essential to have an IT system that helps comply with legal rules issued by authorities. A major part of investments is for IT so as to fulfil requirements provided by the state and regulatory authorities. Complying with the timeframes of the new provisions is an important challenge. Special attention is paid especially to anti-money laundering rules.

In our collaboration with SEC-Services our commitment is to satisfy all legal requirements so as to provide our customers with fair consultancy tailored to meet the needs of each individual.

Organisation and Operational Processes

All of the bank’s operational processes are described in detail in a databank. This way three general principles are followed: customer orientation, efficiency and risk monitoring.

The process organisation service performed an accurate study on the operational processes at branches and certain internal services. Concerning documentation, the number of circulars was further reduced and their content was simplified: from over five hundred to fewer than four hundred circulars. The new process software analyses, optimises and shows each single procedure. It made it possible to eliminate certain inefficiencies that emerged.

In 2011, the same software was also introduced in production to connect the entire internal audit system to the network. Since last January all audit activities are recorded in the system and monitored or requested constantly. The process-risk-audit connection is now operational and makes it possible to have more effective and targeted oversight. The same process software ensures branch transactions are assisted.

Payment Systems

In 2011 most activities in the payment system area were for developing products in the Single Euro Payment Area (“SEPA”).

Through direct debit our business customers now have a payment method that is recognised in Europe and enables them to manage payment orders easily.

This innovative payment system is a further contribution to encourage payments in the Euro area. This development will remain for the next two years and in January 2014 all current payment systems will be fully replaced by SEPA products.

Concerning dormant accounts (deposits and money inactive for at least 10 years) processes for managing and controlling the positions were optimised in order to ensure full respect for the law.

In particular, the second half of 2011 was characterised by regulations on the management of notifications for payment order refusals (PSD) and by the introduction of financial RID. In 2011 most activities in the payment system area were for developing SEPA products (“Single Euro Payment Area”).

Through direct debit our business customers now have a payment method that is recognised in Europe and enables them to manage payment orders easily.

This innovative payment system is a further contribution to encourage payments in the Euro area. This development will remain for the next two years and in January 2004 all current payment systems will be fully replaced by SEPA products.

1.2.9. Projects

Research and Development

With a careful and detailed process of analysing and interpreting the needs of the market the Product Management Office offers products and services that are always at the avant-garde and always satisfy financial needs and identify development potential. It also ensures that the products are always kept up-to-date by monitoring application standards in the retail network and by understanding trends in the competition. This latter aspect is very important to assess whether to introduce a new product or service and always remain competitive while giving a complete and thorough answer to the retail network, which handles customer queries and develops the need for the right product.

The product manager must always ensure compliance with contract laws and product conditions as well as the laws on transparency in transactions and services laid down in the Consolidated Act and regulatory provisions issued by the Bank of Italy and other legal rules and provisions. It is also essential to optimise operational processes in order to reduce risk to a minimum and offer insurance products available on the market thereby ensuring availability to customers through the retail network.

Banca Popolare dell'Alto Adige considers its website to be extremely important and the first contact with potential customers. The virtual channel is increasingly used by customers and work has begun to offer them the possibility to receive a wide range of correspondence and statements in electronic format instead of receiving hard copies, in line with legal rules on transparency issued by the Bank of Italy. Particular attention is paid to the online tools Banca Popolare dell'Alto Adige provides to users to guide them in their choice of the right account, loan applications, calculation of mortgage payments and the ability to see the state of their pension position.

Legal Aspects

All publications announcing legal rules on bank products and services are monitored closely. The product management office pays special attention to compliance with laws on transparency, usury and dormant accounts.

Concerning bank transparency Banca Popolare dell’Alto Adige ensures customers are provided with clear and accurate information.

Automated procedures are considered essential in monitoring interest rates to ensure they are compliant.

A series of amendments, starting from the development decree to legislative decrees known as “Salva Italia", made it necessary to change certain aspects in the management of bank products.

1.2.10. Privacy Protection

In order to protect privacy Banca Popolare dell’Alto Adige uses an IT system developed by the bank (networks, programmes, databases, PCs) also through external application providers.

System security is managed through special procedures, access control and operating instructions that are supervised by the bank’s internal control bodies.

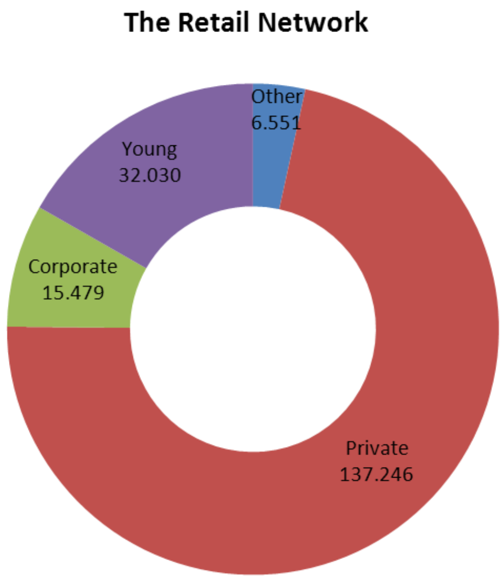
Special systems to prevent error and damage (e.g., viruses) are also used. The following data managers were appointed to guarantee effective treatment and protection of personal information:

- Head of Central Sales Department (customer data manager);
- Head of Human Resources Department (employee data manager);
- Head of Legal Department (data manager under art. 13 of legislative decree no. 196/2003 – Code on personal data protection);
- Head of Organisation Office (manager of electronic data security).

1.3. Banking

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" (high-end customers) and "Corporate Banking" (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 high consulting standards provided by experts on a daily basis. In 2011 a new consultancy system was implemented for investment services to meet the individual needs of customers. In addition, the procedure provides important support to consultants by enabling them to follow the more sophisticated needs of high-end customers in private banking.

Based on the positive experience of 2010, also in 2011 events were organised under "Banca Popolare Volksbank meets entrepreneurship", where the Bank opens up a dialogue with entrepreneurs and business representatives.

The young customer segment (from 0 to 27 years), is an essential resource for retaining future customers. The 11 to 20 segment is under the proprietary brand name 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, in line with youth trends;
- "Club-Orange", for special deals at participating shops.

In 2011 work continued successfully to develop the CRM system (Customer Relationship Management). 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

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.

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.

At the beginning of 2011 work was completed to renovate and inset the Bressanone and Brunico branches. One goal is to recover bank efficiency by centralising operations and another – especially for high-end customers – is to concentrate expert skills and improve the quality of consulting services even more.

In order to meet the specific needs of each area, in 2011 certain industrial plans were made according to area thereby bringing management closer to the unique factors of each local area with their own specific features and customer needs.

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.

Virtual Banking

New features were added to direct b@nking to make the service increasingly more complete and meet customer needs, such as local tax payments (e-payment) and account statements, including CartaSi credit card statements.

Through direct b@nking customers can now order prepaid debit cards and ATM cards online and they can even apply for personal loans online.

Also in 2011 the issue of security on electronic channels was treated as high priority. All customers were provided with a new authorisation system for online orders called OTP GSM (One Time Password GSM) to face the increasing computer crime and to bring security measures up to standard with increasingly modern and effective tools. Online transactions are authorised by entering a random code on a GSM cellular phone.

These improvements also involved CoB@ web, internet banking for SMEs, by fully migrating to the OTP GSM authorisation system also for foreign customers with foreign cellular phones. Another new feature added is online credit line applications.

As the leading bank in the region, and one of the most important in the country, Banca Popolare dell'Alto Adige launched apps for android and windows phone 7 systems. These were added to the iPhone version launched in 2010, which was extremely successful and reached the important threshold of 15,000 downloads by the end of 2011.

Loans

In the first half of 2011 the bank adopted the new legal rules on consumer credit issued by the Bank of Italy on the basis of European directive 2008/48/EC. The goal of the new rules was to make customers aware of the loan agreement being stipulated, the type of product and the commitment they are undertaking. The new rules are applicable to consumer loans between Euro 200 and 75,000. The bank continued to develop and increase these activities to provide customers with more detailed information on the type of credit being offered thereby enabling them to compare terms on a local, national and European scale. This comparison is made possible by standardising the information provided throughout Europe.

The range of consumer credit products was brought in line with law decree no. 141.

In 2011 Banca Popolare dell'Alto Adige reached an important agreement with the European Investment Bank ("EIB"), the EU's financial institution, which contributes to the economic development and social cohesion of member states. For that purpose the EIB collects major resources and grants below-market loans through credit institutions for projects that pursue the objectives of the European Union.

Last year a maximum rate loan was introduced also for business customers. With this type of loan Banca Popolare dell'Alto Adige can offer customers an interest rate with a ceiling set by contract and is not exceeded for the entire duration of the loan while receiving the benefit of stationary interest rates or even lower rates.

One of the most important innovations in 2011 was the multi-channel project, which consists in the home mortgage tool and e-credit. The bank provides customers with a tool to calculate their financial needs and home mortgage payments compared to rent. They can also enter information concerning the loan application and have it assessed by our expert consultants.

With e-credit customers can apply directly online for loans from Euro 1,000.00 to 15,000.00 with repayment from a minimum of 12 months up to a maximum of 60 months. The distinguishing factor of e-credit is no doubt the fact that customers can receive their loan faster without needing to go repeatedly to the branch in person. Indeed, once the bank approves the loan customers can receive the amount requested on signing the contract.

Basic Products

The range of current accounts was revised to satisfy customer needs. At the end of the first half of the year the new Direct Account was launched. This product is dedicated to the growing number of customers who usually conduct most of their transactions by virtual channels. Other accounts were also revised to meet market needs (Free and Compact). New features were also added to Plus Account, which is the tool increasingly being used for liquidity management and remuneration.

The launch of Direct Account also accompanied the introduction of a new sales concept: sales packages, or solutions comprising two or more products offered at special rates or all inclusive. This new strategy is combined with the traditional offer of products sold individually.

Restyling the range of accounts included an ambitious project that characterised the first half of the year: all commercial names of current accounts were renamed. The intention of Banca Popolare dell'Alto Adige is to offer a range of products with modern features and manner of communication.

In accordance with legal rules the bank also started up a campaign to inform customers on the maximum balance allowed in bearer savings accounts (which changed repeatedly during the year): from Euro 12,500.00 to 5,000.00 by 30.06; from Euro 5,000.00 to 2,500.00 by 30.09 and lastly from Euro 2,500.00 to 1,000.00 by 31.03.2012.

Investment Products

In 2011 the new tool for advanced consultancy was developed, introduced and put into production and integrated with bank procedures. This is an innovative tool that enables customers to have custom consulting together with special reporting that is very effective, transparent and detailed. It is based on three levels of consultancy that are structured according to customer needs, defined as *light*, *plus* and *full*. To this end the bank extended greatly their offer in investment services. Investment profiles were reviewed to provide in-depth consultancy based on specific need (light, plus, full) and additional products were added to certain portfolios.

Law decree no. 98 of 6 July 2011 brought dramatic changes to taxation on financial instruments by introducing highly complex calculations. This had an economic impact on customers and gave rise to several doubts and uncertainties amongst operators in the field. Without a clear picture and explanation from the Inland Revenue Agency or dedicated associations the bank chose not to produce a statement of securities as at 30 June 2011 and only produced the one at 31 December 2011 so as to be able to refer to a well-defined legal framework. Customers were provided with the reasoning behind this decision in a notification sent at the beginning of August.

Last August the bank began renewing the information prospectus. This document was filed with CONSOB and made necessary by the issue of bank bonds, which were greatly appreciated by customers and offered good yields with a duration of up to 4 years. The prospectus also included mixed-rate bonds for the first time to offer customers financial instruments with a fixed interest rate and then variable according to the Euribor index.

The graphical representation and content of security statements were revised to adopt recent regulatory provisions. In addition, a study was performed on the economic measures enacted in December 2011 by the Monti administration to stabilise the economic-financial situation of the country, which raised tax on financial instruments and products and bank products in general.

Insurance

Banca Popolare dell'Alto Adige paid special attention to pension development, which is an increasingly current issue in the eyes of the public and the bank considers it essential to offer customers competitive solutions.

This made it possible to increase the skills of consultants to include a particularly complex area that is still rather unknown.

The bank can provide professional and custom consultancy through its network while taking into account several factors such as age, employment history, family situation and financial potential so that every customer can be given their own custom solution.

All consultation interviews are made even more detailed by using a sophisticated tool called *My Plan*, which was developed explicitly for our customers. This tool is the only one of its kind. It processes a certain amount of information received from the customer and makes it possible to assess a gap between the standard of life expected at retirement and the pension that is expected on retirement. This makes it possible to assess all customer needs and offer a customer pension plan.

One prerequisite of the tool developed by Banca Popolare dell'Alto Adige is ease of use and immediate access to the information needed by the customer. At the end of consultation, in addition to receiving an in-depth report on pension status, the customer can also have a report, after signing up, to enable monitoring the position and check that the plan is in line with the objectives stipulated. At any time it is possible to make any changes necessary to ensure that all needs are fully satisfied.

One important aspect in the first half of 2011 was the introduction of a special version of the insurance product *Investidoc* savings plan, which is characterised by recurrent premium payments, with guaranteed capital and minimum revaluation.

Along the same lines as *Investidoc*, while diversifying the provider, the bank intended to extend its offer by introducing a new investment product: *InvestiSicuro* for provide customers who wish to invest, at highly competitive rates, more than Euro 200,000.00 with the same basic features of minimum capital and revaluation.

In order to provide customers with an overview of all the policies offered by Banca Popolare dell'Alto Adige, and especially to ensure clear and complete information for the customer, information packs for each policy are now available at branch self-service areas.

Constant contact with customers and the need to ensure high-quality service makes it necessary to provide continuing training to provide effective answers to customer queries and especially to enable staff propose the most suitable products. This is why the bank ensures constant and continuing education and training: in 2011 695 workers obtain ISVAP certification.

Finance Segment

In the stock market many aspects of 2011 made it the worst in recent years. While in 2008 the financial crisis had a major impact on stock markets and business loans, in the last financial year not even government securities offered a safe investment.

The crisis was characterised by a fall in confidence in the solvency of Italy, Spain, Greece and Portugal first of all. This resulted in a plunge in the spread of nearly all European government bonds and negative performance in stock indices around the world. In the Eurozone only the bonds of Germany, the Netherlands and Finland managed to avoid tax hikes and take advantage of the situation. The table below shows trends at the beginning and end of the year for some of the major financial indicators:

Interest Rates	**Start of 2011**	**End of 2011**	**Change**
Euribor 3 months	1.001%	1.356%	+35.5 BP
Euribor 6 months	1.224%	1.617%	+39.3 BP
IRS 2 years	1.56%	1.312%	-24.8 BP
IRS 10 years	3.272%	2.383%	-88.9 BP

Indices	**Start of 2011**	**End of 2011**	**Change**	**Euro Performance**
Europe				
Eurostoxx 50	2,839.43	2,316.55	-18.41%	-18.41%
DAX	6,989.74	5,898.35	-15.61%	-15.61%
CAC 40	3,900.86	3,159.81	-19.00%	-19.00%
FTSE MIB	20,436.3	15,089.7	-26.16%	-26.16%
FTSE 100	6,013.87	5,572.28	-7.34%	-5.29%
SMI	6,493.88	5,936.23	-8.59%	-6.20%

USA and Japan				
S&P 500	1,271.87	1,257.6	-1.12%	2.04%
Nikkei	10,398.1	8,455.35	-18.68%	-11.24%

The extremely negative performance of Italian government securities and bank bonds had a major impact on the income statements of Italian banks and Banca Popolare dell'Alto Adige was no exception.

By using special market analysis and forecasting techniques the bank managed to limit capital losses and offset them almost entirely with income generated. This was made possible by:

- extremely cautious placement of Italian bonds;
- early reduction of risk, also by not assuming any risks on financial instruments from countries hit hardest by the sovereign debt crisis;
- shorter duration.

Through careful reallocation, in 2011 Banca Popolare dell'Alto Adige managed to obtain ECB eligible securities, especially high solvency covered bonds.

Liquidity Management

In 2011, 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 three bond issues on capital markets for a total of Euro 175 million under the Euro Medium-Term Note programme ("EMTN").

Two long-term loans were also placed for a total of Euro 22 million. Furthermore, securitisation transactions on mortgage loans and the redemption of Euro 338.60 million in ABS securities ensured that the bank had a sufficient base of securities to use as guarantee for refinancing with the European Central Bank.

In December 2011 the bank participated in financing a Euro 200 million repo operation offered by the European Central Bank.

Banca Popolare dell'Alto Adige collected the liquidity necessary on the interbank market, favoured 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 debt rising from Euro 488 million to Euro 498 million.

Equity investments in subsidiaries and companies subject to significant influence

At 31 December 2011 equity investments in subsidiaries and associates were the same as last year:

- VOBA Invest S.r.l. in liquidation, recorded in the financial statements at Euro 348 thousand;
- Casa di cura Villa S. Anna, recorded in the financial statements at Euro 516 thousand.

The net equity of VOBA Invest S.r.l. at 31 December 2011 amounted to Euro 308 thousand. The write-backs made in the first half of the year were partially offset by value adjustments on certain investments reported in the financial statements at 31 December 2011. The contribution of the subsidiary in 2011 year-end profit amounted to Euro 318 thousand. Rationalisation of the subsidiary's assets, which began in 2011, will continue also in 2012 in order to ensure high capitalisation of the assets reported in the subsidiary's financial statements.

During the year Casa di Cura Villa S. Anna distributed dividends for a total of Euro 105 thousand.

1.4. Results of Operations

The results of operations in the 2011 financial year confirm the well-balanced position of aggregate balance sheet items, the solid financial condition and adequate liquidity. There was a slight rise in earnings. The result in the finance segment, affected by high uncertainty in financial markets, was offset by positive performance in core business.

The performance of retail banking, the bank's core business, continued to be satisfactory. Interest margins and net commissions showed positive performance. Loan write-downs were worse. Loan risks reflect the significant relation with the economic outlook and the bank's strong ties with the local territory. Discounting components, to the benefit of the 2010 income statement, should be taken into account when making comparisons with the previous year.

1.4.1. Income Statement

Income Statement	31.12.2011	31.12.2010	Change	
			Amount	%
Interest Margin	**116,855**	**106,444**	**10,411**	**9.8%**
Net commissions	68,308	67,111	1,196	1.8%
Dividends and similar income	335	324	10	3.2%
Net income from trading activities	(6,592)	(2,689)	(3,904)	145.2%
Profit (Loss) from the sale or repurchase of available-for-sale assets or financial liabilities	1,081	(625)	1,706	(272.8%)
Net profit (loss) from financial assets and liabilities carried at fair value	439	231	207	89.6%
Banking margin	**180,424**	**170,797**	**9,627**	**5.6%**
Net value adjustments/write-backs for loan impairment or other financial transactions	(19,545)	(8,568)	(10,977)	128.1%
Net income from financial management	**160,879**	**162,229**	**(1,350)**	**(0.8%)**
Administrative costs:	(127,875)	(123,222)	(4,653)	3.8%
- personnel costs	(74,791)	(73,909)	(882)	1.2%
- other administrative costs	(53,084)	(49,313)	(3,771)	7.6%
Net allocations to provisions for risks and charges	(892)	(2,046)	1,154	(56.4%)
Net value adjustments on tangible and intangible assets	(9,771)	(12,076)	2,304	(19.1%)
Other operating costs/income	10,737	9,066	1,671	18.4%
Operating costs	**(127,801)**	**(128,278)**	**477**	**(0.4%)**
Profit (Loss) on equity investments	318	(2,086)	2,404	-
Profit (Loss) from disposal of investments	54	(38)	92	(239.2%)
Current operating profit (losses) before tax	**33,450**	**31,827**	**1,622**	**5.1%**
Year-end income taxes for current operations	(14,934)	(14,388)	(547)	3.8%
Profit (loss) for the year	**18,515**	**17,439**	**1,076**	**6.2%**

The 2011 interest margin amounted to 116.8 million, up by 10.4 million (+ 9.8%) over the previous year (106.4 million), mainly for customer relations.

Net commissions stood at 68.3 million, a slight rise (+1.8%) over the 67.1 million of the previous year.

Commissions from asset management services, brokerage and consultancy fell by 5% to 15.4 million (16.2 million in 2010), mainly due to securities placement (-1.1 million), offset by income from insurance products and collection and payment services.

The decrease in securities placement is mainly due to the lack of confidence in financial markets. The positive performance in distribution of insurance products is mainly due to the renewed interest in financial instruments offering protection from risk and limited volatility at a time of significant uncertainty.

Payable commissions rose by 18.4% to 5.4 million (4.5 million in 2010) mainly as a result of accounting for commissions on asset management and brokerage services.

Dividends received in the period amounted to 0.3 million and mainly refer to interests under available-for-sale financial instruments in addition to the 35% held in Casa di Cura Villa S. Anna reported under equity investments.

Trading generated a negative result of 6.6 million compared to last year's negative result of 2.7 million. The main components of the result are as follows:

- operations related to financial trading were negative at 4.7 million, 5.1 million of which for valuation capital losses, 0.4 million for trading losses and a total of 1 million in capital gains and earnings on trading;
- operations related to derivatives were negative for a total of 2.6 million, which mainly comprises a net loss for trading amounting to 1 million and net valuation capital losses for 1.5 million.

Earnings on the repurchase of financial instruments amounted to 1.1 million, compared to a loss of 0.6 million in 2010. In particular, the figure in 2010 was negatively affected by the non-recourse assignment of impaired loans that were beyond any cost-effective recovery for the bank.

The banking margin stood at 180.4 million, up by 5.6% compared to 170.8 million in 2010.

The bank uses the fair value option to hedge against interest rates on liabilities issued. Net earnings from hedging amounted to 0.4 million. This effect was generated by the negative result of financial liabilities for 3.8 million, which was offset by the positive result of credit and financial derivatives for 4.3 million.

Net write-downs for impaired loans amounted to 19.6 million and all pertain to customer loans. In particular, in 2011 there were more write-downs for impaired positions for a total of 27.2 million, compared to 21.8 million in 2010.

Write-backs for valuation and collection on impaired loans to customers amounted to 6.3 million, compared to 10 million in 2010.

The cost of credit stood at 0.40%, compared to last year's average of 0.17%.

By effect of value adjustments on loans the result of financial operations amounted to 160.9 million, down by 0.8% compared to 162.2 million in 2010.

Concerning costs, staff expenses amounted to 74.8 million, up by 0.9 million (+1.2%) compared to the previous year.

Namely, salaries and wages rose from 49.7 to 50 million (+0.52%) and social security charges rose by 3.83% to 13.9 million (13.4 million in 2010). The average number of employees rose from 1,027 workers in 2010 to 1,035 workers.

Other administrative expenses, amounting to 53.1 million, rose by 7.7% (49.3 million in 2010).

The rise of 3.8 million is mainly due to higher amounts paid to professionals (+1.3 million), the rise in stamp duties and the tax on stock exchange contracts (+1 million) and legal expenses for debt collection (+2.1 million). There was a decrease in costs for payable rent (-0.3 million), insurance premiums (-0.2 million), advertising and entertainment (-0.4 million), cleaning services (-0.2 million) and postal and communication costs (-0.4 million).

Allocations to provisions for risks and charges fell to 0.9 million, compared to 2 million in 2010 (-56%). Allocations made last year were affected by a non-recurrent item pertaining to the subsidiary VOBA Invest S.r.l..

Value adjustments on tangible and intangible assets amounted to 8.3 million, compared to 10.2 million in 2010 (-18.6%). The decrease is mainly due to higher efficiency in asset management. Likewise, value adjustments on intangible assets with a finite useful life, mainly pertaining to software, fell by 22% to 1.4 million, compared to 1.8 million in 2010.

Other operating charges and income amounted to 10.7 million. The higher contribution compared to the previous year (+1.7 million) was mainly due to higher expense recovery from ordinary customers.

On the whole, operating charges amounted to 127.8 million, a slight decrease (-0.4%) compared to 128.3 million in 2010. The cost/income ratio stood at 72.01, a significant decrease compared to 75.22% at year-end 2010.

Credit commitments amounted to 27.4 million and there were no impaired counterparty loans.

Income from current operations before tax amounted to 33.4 million, up by 5.1% compared to 31.8 million the previous year.

Taxes amounted to 14.9 million (+3.8% compared to 14.4 million in 2010). The tax rate is 44.6%, compared to last year's 45.2%.

Year-end profit stood at 18.5 million, compared to 17.4 million in 2010 (+6.2%).

In relation to the above, the bank's economic performance expresses a ROE (Return on Equity) of about 3.43%, up compared to 3.27% in 2010.

By effect of changes in valuation reserves reported in the period, comprehensive profit stood at 14.4 million, compared to 18.3 million the previous year.

1.4.2. Balance Sheet

Bank Payables and Receivables

The negative balance of interbank transactions stood at 497.9 million, up from 488.3 million in 2010.

Interbank Relations	**31.12.2011**	**31.12.2010**	**Change**	
(millions of Euro)			**Amount**	**%**
Receivables from banks	172,171	50,430	121,741	241.4%
Payables to banks	670,107	538,738	131,369	24.4%
Net banking position	**(497,936)**	**(488,308)**	**(9,628)**	**2.0%**

The interbank market provided the bank with enough liquidity in the period to sustain its short-term and immediate needs. As regards treasury activity at the end of the year, the net liquidity position on the interbank market showed debt rising from Euro 488 million to Euro 498 million.

Loans to Customers

Customer lending amounted to 4,797.6 million, up by 6.32% compared to 31 December 2010, when the item stood at 4,512.7 million (+295 million).

Technical form of loans	31.12.2011	31.12.2010	Change	
			Amount	%
Current accounts	1,441,842	1,505,329	(63,487)	(4.2%)
Repurchase agreements	0	345	(345)	(100.0%)
Mortgages	2,830,016	2,603,281	226,735	8.7%
Credit cards, personal loans and salary-backed loans	53,460	21,713	31,747	146.2%
Other transactions	472,320	381,987	90,333	23.7%
Total	**4,797,638**	**4,512,655**	**284,983**	**6.3%**

Short-term technical forms amounted to 1,914.2 million, down by 1.4% (-26.8 million) compared to last year. Medium/long-term technical forms, basically consisting of mortgages, rose by 258.5 million (+9.85%) reaching a total of 2,883.5 million.

Concerning customer lending the mortgage technical forms comprise 59% of net unimpaired loans, against 57.8% at 31 December 2010.

Current accounts comprised 30.1% of net customer lending, down from last year's 33.4%.

The continuing support to the economy and households is clearly seen by the distribution of lending. Private and public lending rose compared to last year, by 9.25% and 6.18% respectively. Lending to the service sector fell slightly (-0.9%).

Customer Lending	31.12.2011	31.12.2010	Change	
			Amount	%
Private individuals	1,622,920	1,485,482	137,438	9.3%
Manufacturing industry	1,586,846	1,494,417	92,429	6.2%
Sales	400,037	393,110	6,927	1.8%
Services	1,068,116	1,077,762	(9,646)	(0.9%)
Public authorities, financial and insurance sector	119,719	61,884	57,835	93.5%
Total	**4,797,638**	**4,512,655**	**284,983**	**6.32%**

Net impaired loans at 31.12.2011 amounted to 255.6 million, down by 0.68% compared to last year's 2,53.9 million. The incidence on the total of net customer lending was 5.3%, down from last year's 5.6%.

Impaired Loans	31.12.2011	31.12.2010	Change	
Impaired Loans Subtotal			**Amount**	**%**
Gross amounts	363,552	342,432	21,120	6.2%
Value adjustments	(107,939)	(88,533)	(19,406)	21.9%
Net Balance	**255,612**	**253,898**	**1,714**	**0.68%**

Net impairment rose by 13.8% to 130.3 million, compared to 114.5 million of the previous year. The degree of cover stood at 40.7%, up from last year's 39.4%, which reflects increasing oversight for these positions. The incidence of net impaired loans on the total of net lending was 2.7%, down from last year's 2.5%.

Net problem loans amounted to 103.4 million, a 6.86% rise over the 96.8 million of the previous year. The percentage of cover stood at 10.8%, a 6.9% rise over the previous year. The incidence of net problem loans over net lending stood at 2.1%, the same as the previous year.

Past-due and overdue loans amounted to 11.3 million, a significant decrease compared to last year's 34.2 million. The percentage of write-downs stood at 1.6%, a 1.4% rise over the previous year.

Net performing loans amounted to 4,542 million, a 6.6% rise over the 4,258.8 million of the previous year. The process of collective impairment of performing loans led to a 20.4 million adjustment, a 6.81% rise compared to 19.1 million in 2010. The percentage of collective write-downs stood at 0.45%, the same as the year before.

The percentage of gross impaired loans compared to gross lending stood at 4.5%, a 4.1% rise over the previous year.

Financial Assets

This segment showed the following trends:

- Financial assets held for trading, consisting of 166.4 million in debt securities and 27.3 million in financial trading derivatives and pertaining to the fair value option, amounted to 193.7 million, down by 34.8% compared to 296.9 million in 2010;
- Available-for-sale financial assets, consisting of 108.7 million in debt securities, 10.7 million in capital instruments and 58.8 million in mutual investment funds, amounted to 178.2 million, a considerable increased compared to 86.7 million in 2010;
- The financial assets the bank is able and intends to hold to maturity amounted to 3.7 million, a considerable fall compared to 11.6 million in 2010, by effect of repayments made during the year.

Equity Investments

This item consists only of equity investments in subsidiaries and companies subject to considerable influence, and it is the same as last year:

Name	Registered office	% of interest	% of Voting rights
Wholly-owned subsidiaries			
1. Voba Invest S.r.l. in liquidation	Bolzano	100%	100%
Companies subject to considerable influence			
1. Casa di Cura Villa S. Anna S.r.l.	Merano	35%	35%

On 14 June 2011, VOBA Invest S.r.l. was placed in liquidation. The liquidation proceedings started up in 2011 and shall continue in 2012 with progressive valorisation of the subsidiary's assets, also by means of disposal.

Tangible Assets

Tangible assets amounted to 112.5 million, a 6 million decrease compared to 2010 (-5%). During the year a total of 8.3 million in depreciation was recorded against a total of 2.4 million in purchases.

The decrease reflects the cost control underway in recent financial years, which, starting in 2010, made it possible to benefit from lower depreciation.

Intangible Assets

Intangible assets comprise goodwill for 40.4 million, the same as the previous year, and intangible assets with a finite useful life amounting to 4.1 million (4.7 million at year-end 2010).

Goodwill is not subject to amortisation and impairment tests are performed when preparing the financial statements. For further information concerning impairment tests on goodwill see "Section 12 – Intangible Assets" in the explanatory notes.

Customer Deposits

At 31 December 2011 customer assets managed, comprising direct deposits and indirect deposits with institutional counterparties, amounted to 10,965.3 million, a rise of approximately 3.9% over 31 December 2010 (10,556.2 million).

Direct deposits amounted to 4,263 million, a rise of 261.6 million (+6.5%) over the figure at 31 December 2010 (4,001.4 million).

Amounts due to customers (2,204.6 million), rose by 10.5% compared to 1,994.9 million the previous year (+209.7 million).

Direct Deposits	31.12.2011	31.12.2010	Change	
			Amount	%
Savings and current accounts, certificates of deposit	2,204,613	1,994,928	209,686	10.51%
Outstanding securities	1,944,853	1,820,868	123,985	6.81%
Other payables	73,524	104,045	(30,521)	(29.33%)
Reverse repurchase agreements on securities	40,014	81,529	(41,514)	(50.92%)
Total	**4,263,005**	**4,001,369**	**261,636**	**6.54%**

Breaking down the figure there was an increase in demand deposits, comprising current and demand accounts (+209.7 million, equal to 10.5%), which makes up 51.7% of direct deposits, and an increase in time deposits, which rose by 6.8% of outstanding securities (+123.9 million).

Out of the total amount of outstanding securities, 292.5 million pertained to bonds issued under the EMTN programme and subscribed by institutional customers. As mentioned above, in 2011 two issues were placed under the programme for a total of 175 million.

There was a decrease in repurchase agreements, which amounted to 40 million compared to 81.5 million in 2010.

At 31 December 2011 indirect deposits from private customers amounted to about 1,904.7 million, which is a slight decrease compared to 2,042.2 million in the previous year (-137.5 million).

Indirect Deposits - technical form	31.12.2011	31.12.2010	Change	
			Amount	%
Indirect deposits - administered	1,099,330	1,104,460	(5,130)	(0.46%)
Mutual investment funds	660,755	788,262	(127,507)	(16.18%)
Insurance products	144,616	149,500	(4,884)	(3.27%)
Total	**1,904,701**	**2,042,222**	**(137,521)**	**(6.73%)**

Administered indirect deposits amounted to 1,099.3 million, a decrease of 0.5% compared to the previous year, mainly due to lower values at year-end following a particularly penalising scenario for markets.

Asset management fell by 14.1% (-132.4 million) compared to 2010. The most significant effect is the fall in mutual investment funds component, which was also penalised by the particularly negative situation in the market.

Shareholders' Equity

At the date of these financial statements the bank held share capital amounting to Euro 69,340,638, divided into 34,670,319 ordinary shares at a nominal value of Euro 2.00 each.

Net equity at 31 December 2011, including year-end profit of 18.5 million, amounted to 541.9 million, (+ 0.7% compared to 537.9 million in December 2010).

The increase of about 3.9 million is due to higher profit for the period (+18.5 million) and decreases resulting from negative change in valuation reserves (-4.1 million) and the effect of distributed earnings amounting to 10.4 million.

Regulatory capital stood at 486.8 million, up by 4.5 million compared to 2010.

Regulatory Capital	31.12.2011	31.12.2010	Change	
			Amount	%
Tier 1 capital	412,052	407,687	4,365	1.1%
Tier 2 capital	74,709	74,575	134	0.2%
Deductible elements	0	0	0	
Regulatory Capital	**486,761**	**482,262**	**4,499**	**0.9%**

Required capital adequacy entailed a capital requirement amounting to 362.2 million. Compared to 327 million in 2010, the requirement rose by 35.3 million almost entirely due to credit risk and counterparty risk.

The ratio between tier 1 capital and total weighted assets (Tier 1 ratio) was 9.1%, compared to 9.97% at 31 December 2010. The ratio between regulatory capital and total weighted assets (Total Capital Ratio) stood at 10.75%, down compared to last year's 11.80%. The bank's capital is more than sufficient to meet the minimum requirement set by the supervisory body.

CAPITAL RATIOS	31.12.2011	31.12.2010
Core tier 1 ratio	9.10%	9.97%
Tier 1 ratio	9.10%	9.97%
Total capital ratio	10.75%	11.80%

For further information see the explanatory notes for the statement of changes in shareholders' equity and tables outlining regulatory capital.

1.4.3. Significant Events during the Financial Year

New Management Structure

Starting on 1 September 2011 the new management structure was instilled also in accordance with the 2012-2014 strategic plan, which focuses on maintaining independence, consolidating the traditional markets of Alto Adige and developing the Northeast.

The structure consists in three staff departments and four central management offices under the direction of the Chief Operating Officer.

The staff offices are General Secretary, Human Resources and Internal Audit. The central management offices are the Sales Department, Loans Department, Finance Department and Operations Department.

VOBA Finance 3 S.r.l. Securitisation Operation

As described in the explanatory notes, on 6 September 2011 an operation for the securitisation of performing loans was completed by means of non-recourse assignment to the vehicle company VOBA Finance 3 S.r.l.. The operation involved a portfolio of loans to customers amounting to Euro 387,269,164.82.

Like previous VOBA Finance S.r.l. and VOBA Finance 2 S.r.l. securitisation operations, it was undertaken to obtain instruments eligible for ECB refinancing operations in order to meet liquidity needs.

1.5. Mutual Nature and Initiative for Shareholders

1.5.1. The Bank's Shareholders

At 31 December 2010 there were 19,638 Members and 2,627 Shareholders (holders of Banca Popolare dell'Alto Adige shares with no voting rights at Shareholders' Meetings). In 2011 there were 3,725 new members while 350 memberships were cancelled. There were 209 new shareholders while 967 withdrew.

The total number of shares remained the same as last year, amounting to 34,670,319 shares.

The 2011 shareholders' meeting set the issue price of shares at Euro 18.35, which includes Euro 2.00 nominal value, and Euro 0.30 as the dividend per share for 2011.

In 2011, 1,165,725 shares were traded using the trading platform, which corresponds to 3.35% of share capital as at 31 December 2011.

The "open door" policy fostered by art. 2528 of the Civil Code can be seen by the shareholder movement outlined below:

Year	Incoming Members	Outgoing Members	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
2011	3,725	350	209	967

1.5.2. 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 optimise profit, 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 members of Banca Popolare dell'Alto Adige know that care 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 in line with the Bank's mission.

In 2011 the membership continued to play a central role for the Bank. The link of trust with members and mutual nature are reflected by the fact that 90% of members are also customers of the Bank. The Euro 150 expense for admitting a member was eliminated in order to expand membership.

In addition to the purely economic benefits, members are at the centre of an intense and direct communication process starting from the relationship with branch consultants and moving on to the magazine News4you (membership 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.

The annual assemblies for bank members represent the main occasion for contact and interaction between the Bank's customer base and top management.

A demonstration of the bank's commitment to the membership is the project kicked off in October to manage communications and take care of emotional aspects considered value added (e.g., events, gifts, special offers).

The annual report is used to communicate in a clear and transparent manner the impact its operations have on the environment it works in. Also with this means of communication the bank intends to strengthen its social role and mutual nature underlying its culture and guidelines, which is in line with the bank's mission and at the basis of the Italian cooperative banking movement. The annual report provides transparent and clear information to offer an opportunity to provide visibility on the bank's commitment and the fact that it is "a bank of the territory for the territory" wherever the path of development takes it.

The regulations for cooperative banks are characterised the rigorous application of the principle of per capita voting and by strict legal rules on limits to equity shareholdings, so as not to allow pre-constituted 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 members 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.

1.6. Information Required by Bank of Italy/CONSOB/ISVAP Documents no. 2 of June 2, 2009 and no. 4 of March 3, 2010 on Application of IAS/IFRS

On 6 February 2009 Bank of Italy/CONSOB/ISVAP issued document no. 2 on application of IAS/IFRS in order to recommend insertion of information on the going-concern assumption, financial risks borne by the entity, impairment tests and uncertainties in using estimates.

The importance of dedicating the maximum commitment to valuations related to the going-concern assumption and information in the financial statements was also mentioned in document no. 4 of 3 March 2010 issued by the same authorities. It stresses the need to ensure transparency in reporting valuations of goodwill and other intangible assets with indefinite useful lives and equity investments, on the valuation of equity instruments classed as "available for sale", and on the classification of financial liabilities backed by special contractual stipulations.

With regard to the going-concern assumption, in the bank's operations and financial development the directors did not detect any situations that would raise any doubt on the bank's ability to continue its regular operations. Thus, the directors feel that the equity and financial structure of the bank is satisfactory to guarantee that the bank can operate as a going concern. Based on this reasonable expectation the financial statements at 31 December 2011 were prepared under the going-concern assumption.

Concerning financial risk disclosure this was described in the directors' report and in Part E of the Explanatory Notes: "Information on risks and related hedging policies".

When preparing the year-end financial statements Banca Popolare dell'Alto Adige performed impairment tests on its assets and especially on goodwill, participatory investments carried under assets and available-for-sale securities. A description of how the tests were conducted and their results is provided in the explanatory notes.

Concerning uncertainty in using estimates when preparing the financial statements in the Explanatory Notes under part A – "Accounting Policies, A. 1 – General Information" there is a special section entitled "uncertainties related to use of estimates".

Lastly, with regard to the classification of the bank's financial liabilities, none of the medium/long-term payables are classed as "current" as the term expired or due to default on the contract stipulations backing the liability.

1.7. Foreseeable Results of Operations

2011 was a year full of events. The Arab Spring and the nuclear disaster of Fukushima in Japan dominated the press, but the markets were focused on the debt crisis in developed economies, both in the United States, which were downgraded for the first time in history, and in Europe, with a series of summits held to limit a crisis that put the single currency at risk and still no solution has been found.

The economic cycle appears to be in a phase of long-term change. The debt crisis is likely to dominate all of 2012 and have an impact on the entire economy and financial markets.

The ability to overcome the sovereign debt crisis will be bound to economic growth, which is a difficult objective in an economic phase of deleveraging. Debt monetisation might raise inflation, which would put heavy pressure on certain countries in the EU, especially Greece. EU countries chose austerity, which could lead to recession. Recent economic indicators confirm this risk.

The tensions of 2011 are unlikely to end in 2012. Measures regarding Greek debt entailed a considerable drop in value, which made it possible to prevent default. The Greek economy will continue to be in recession in 2012. The unemployment rate in Spain will continue to exceed 20%. No indicators lead one to believe that 2012 will be the year when these tensions are resolved.

The significant correction of accounts applied by Italy has in any case made it possible to lower the risk of contagion. The challenge for growth has yet to be realised. As mentioned for 2012, a recession is expected in Italy, France and Spain whereas Germany is expected to have weak growth. On the whole, the Eurozone economy is expected to fall.

These uncertainties reflect on the performance of credit institutions. First of all financial intermediaries should pursue a route of recapitalisation, also by reinvesting any earnings. Stabilisation of European bank capital will require significant intervention, though it is difficult to assess the degree of intervention needed.

In this context interest rates are expected to remain low and should not be much different from last year.

Customer interest margins are expected to remain stable. Some benefit on the financial margin may come from the partial recovery of markets that took place at the beginning of 2012, even if market volatility and economic uncertainty could quickly have a negative impact on the result.

The commissions component should remain substantially the same, taking into consideration the low growth or moderate recession expected in 2012. Market volatility should drive safe investments and more risk diversification.

Lastly, credit risk should remain particularly high and place considerable pressure on the income statement. Recession and austerity measures adopted by the government will have a negative impact on company solvency, which has already been greatly affected by the long period of difficulty. Their profitability will decrease even further.

Only tangible growth measures will enable recovery that will benefit markets and businesses.

In a particularly difficult economic scenario cost control and risk mitigation are key as well as improved efficiency and oversight.

Concerning equity, defining long-term stability strategies and enacting various initiatives (ordinary increase, convertible lending) are essential for future development, and they will enable the bank to ensure standards are respected and to take advantage of any opportunities arising from developments in the situation.

Also in 2012 the bank will focus on ensuring improved customer service and growth in the territory of reference, also by creating value for its members.

1.8. Significant Events after Year-End

In accordance with the special rules enacted by the Bank of Italy the significant events occurring after year-end are set forth in the Explanatory Notes, part A, Section 3.

1.9. Proposal for the Allocation of Year-End Profit

Dear Members,

After disclosing the directors' report and examining the financial statements comprising the balance sheet, income statement and explanatory notes, we now submit the 2011 financial statements for your approval.

The year ended with at a net profit of Euro 18,515,111.

After deducting the required amount (Euro 317,893) for the unavailable profit reserve pursuant to art. 6(2) of legislative decree no. 38 of 28 February 2008, year-end profit totalled Euro 18,197,218.

After deducting from that amount the share required for the legal reserve (Euro 1,900,000) in accordance with art. 32 of law decree no. 385 of 1 September 1993, net distributable profit totalled Euro 16,297,218.

After carefully considering the need to continue to build up our financial resources and the need to ensure remuneration for our members, the Board proposes the following allocation:

Net profit for the year	**18,515,111**
Unavailable profit reserve under art. 6(2) legislative decree no. 38 of 28 February 2005	317,893
Net year-end profit after amount required for unavailable profit reserve under art. 6(2) legislative decree no. 38 of 28 February 2005	18,197,218
Legal reserve	1,900,000
Net distributable profit	**16,297,218**
Dividend of Euro 0.3 on 34,670,319 eligible shares	10,401,096
Remaining profit allocated to extraordinary reserve	5,896,122

REPORT BY THE BOARD OF STATUTORY AUDITORS

REPORT BY BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ART. 2429(3) OF THE CIVIL CODE

Dear Members,

Summary and outcome of oversight

During the period which ended 31 December 2011 the board of statutory auditors performed the audits required by the civil code, by legislative decree no. 385/1993 (T.U.B.), by the guidelines issued by public authorities 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 February 1998.

With regard to the activities performed in 2011, we specifically inform the shareholders' meeting that:

- We oversaw compliance with the Law, rules 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 2011 we attended shareholders' meetings, meetings of the board of directors, the executive committee and through the Chairman, who is a member, the strategic commission, and we ensured the consistency of operations; the board of directors and executive management were provided with the minutes and reports for our inspections and we present an oral report on our activities to the board;
- 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, and they do not 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, audits and accounting-administration at the Bank, and the reliability of the latter when representing correctly the facts of management;
- In carrying out our duties we met periodically with heads of departments, especially the compliance office and internal audit office, to check their operations with careful attention to anti-money laundering measures and the adequacy of the internal audit system;
- We oversaw the bank's internal processes, especially with regard to procedures to grant credit and write down loans and we checked the bank's management of impaired positions;
- We received the opinion of the independent auditors, BDO S.p.A., Milan, as required by art. 2409-*septies* of the Civil Code and in no case have any divergences of opinion or assessment emerged, nor have any significant data or information emerged which should be mentioned in the present report; we assessed the independence of the independent auditors pursuant to art. 17 of legislative decree 39/2010;
- 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 November 2010 and there were no non-conformities. The issue of transactions with related parties is described under section "H" of the Explanatory Notes and in special section in the Directors' Report;

- The bank's governance model is currently under revision;
- We met with the executive responsible for preparing the financial statements and no irregularities on operational processes were reported;
- At a meeting held on 23 March 2012 the board of directors provided a positive assessment on the adequacy of its size, composition and operations;
- The board of statutory auditors also checked whether the conditions were in place to consider its members independent;
- We should point out that no reports in relation to art. 2408 Civil Code were submitted by members nor were there any major complaints made by any third parties.

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 December 2011, 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., Milan, as per their appointment by the general shareholders' meeting;
- On 23 March 2012 the independent auditors submitted its report on the financial statements at 31 December 2011 pursuant to articles 14 and 16 of legislative decree 39/2010 and it is acknowledged that the report does not report any irregularities or inconsistencies with regard to the financial statements or the directors' report;
- We verified the layout of the financial statements, their general compliance with regulations in terms of format and structure, also taking into consideration international accounting standards (IAS/IFRS) and the provisions issued by the Bank of Italy in Circular no. 262 of 22 December 2005 and subsequent amendments on the technical format and preparation of bank financial statements;
- The explanatory notes 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 the 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 executive responsible for preparing the financial statements, Alberto Caltroni, issued a certificate under art. 154-bis of Legislative Decree 58/98 on the year-end financial statements.
- Concerning the distribution of dividends, taking into consideration instructions from the Bank of Italy dated 2 March 2012, equity ratios and earnings forecasts for the bank, we would like to inform you that we gave a favourable opinion on the proposal to distribute a dividend, and we suggested to undertake careful capital management and implementation in 2012, at least in part, of the share capital increase that will be proposed at the shareholders' meeting.

The Board of Statutory Auditors confirms that the 2011 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, 29 March 2012

THE BOARD OF STATUTORY AUDITORS

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

(signed on the original)

CERTIFICATION ON THE YEAR-END FINANCIAL STATEMENTS

YEAR-END FINANCIAL STATEMENT CERTIFICATION UNDER ART. 81-TER OF CONSOB REGULATION NO. 11971 DATED 14 MAY 1999 AS AMENDED

1. The undersigned, Otmar Michaeler, as Chairman of the Board of Directors of Banca Popolare dell'Alto Adige Società Cooperativa per Azioni and Alberto Caltroni as the executive responsible for preparing the Company's financial reports of Banca Popolare dell'Alto Adige società cooperativa per azioni, hereby certify, also in consideration of the provisions of art. 154-bis (3, 4) of Italian Legislative Decree no. 58 of 24 February 1998:

   - the adequacy in relation to the characteristics of the Company and

   - the effective application

   of the administrative and accounting procedures for the formation of the financial statements in 2011.

2. We also hereby certify that:

   2.1. The financial statements:

   a) were drawn up in compliance with the applicable international accounting standards recognized in the European Community as per EC regulation no. 1606/2002 of the European Parliament and of the Commission, dated 19 July 2002;

   b) comply with the results of the accounting records and journal entries;

   c) are suitable to provide a true and fair view of the balance sheet, income statement and financial situation of the issuer.

   2.2. The directors' report includes a reliable analysis of operatin performance and results, as well as the situation of the issuer, together with a description of the main risks and uncertainties to which it is exposed.

Bolzano, 23 March 2012

Otmar Michaeler	Alberto Caltroni
Chairman of the Board of Directors	Manager responsible for preparing the Company's financial reports
(signed on the original)	***(signed on the original)***

INDEPENDENT AUDITORS' REPORT

BDO

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Via Dietro Listone, 16
37121 Verona
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Auditor's report on the financial statements
in accordance with articles 14 and 16 of legislative decree n. 39 of 27 January 2010
(This report has been translated from the original Italian text which was issued in accordance with the Italian legislation)

To the shareholders of
Banca Popolare dell'Alto Adige società cooperativa per azioni

1. We have audited the financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as at and for the year ended December 31, 2011, comprising the statement of financial position, income statement, statement of comprehensive income, the statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative Decree n. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of prior year, the data of which are presented for comparative purposes, reference should be made to our auditor's report issued on April 5, 2011.

3. In our opinion, the financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as at and for the year ended December 31, 2011 comply with the International Financial Reporting Standards endorsed by European Union and the Italian regulations implementing article 9 of legislative decree n. 38/2005; therefore, they are clearly stated and give a true and fair view of the financial position, the results of the operations and the cash flows of Banca Popolare dell'Alto Adige società cooperativa per azioni for the year then ended.

4. The directors of Banca Popolare dell'Alto Adige società cooperativa per azioni are responsible for the preparation of a report on operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the report on operations with the financial statements, as required by law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob. In our opinion the report on operations is consistent with the financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as at and for the year ended December 31, 2011.

Verona, March 23, 2012

BDO S.p.A.

Signed by:
Alfonso Iorio
(Partner)

FINANCIAL STATEMENT SCHEDULES

Balance Sheet

Assets	31.12.2011	31.12.2010
Euro		
10. Cash and cash equivalents:	**35,768,088**	**41,452,190**
20. Financial assets held for trading	**193,740,229**	**296,914,840**
40. Financial assets available for sale	**178,190,285**	**86,678,042**
50. Financial assets held to maturity	**3,693,152**	**11,552,496**
60. Receivables from banks	**172,171,200**	**50,429,906**
70. Loans to customers	**4,797,638,012**	**4,512,655,378**
100. Equity Investments	**864,350**	**516,457**
110. Tangible assets	**112,498,405**	**118,451,859**
120. Intangible assets	**44,473,436**	**45,123,046**
goodwill	***40,392,116***	***40,392,116***
130. Tax assets	**36,613,259**	**40,830,464**
a) current	***19,076,568***	***28,002,150***
b) prepaid	***17,536,691***	***12,828,314***
150. Other assets	**44,507,858**	**43,120,388**
Total assets	**5,620,158,274**	**5,247,725,066**

Liabilities and shareholders' equity	31.12.2011	31.12.2010
Euro		
10. Payables to banks	**670,107,386**	**538,737,887**
20. Amounts payable to customers	**2,314,391,919**	**2,177,872,183**
30. Outstanding securities	**1,312,813,889**	**1,218,166,177**
40. Financial liabilities held for trading	**15,439,498**	**15,310,171**
50. Financial liabilities measured at fair value	**635,798,800**	**605,330,440**
80. Tax liabilities	**41,603,297**	**34,885,128**
a) current	*17,517,471*	*11,216,938*
b) deferred	*24,085,826*	*23,668,190*
100. Other liabilities	**69,171,387**	**99,026,334**
110. Staff severance indemnities	**17,252,954**	**17,868,008**
120. Provisions for risks and charges:	**1,684,911**	**2,617,685**
a) pensions and similar commitments	*0*	*0*
b) other provisions	*1,684,911*	*2,617,685*
130. Valuation reserves	**68,801,178**	**72,932,013**
160. Reserves	**239,464,579**	**232,426,318**
170. Share premium reserve	**145,772,727**	**145,772,727**
180. Capital	**69,340,638**	**69,340,638**
200. Profit (loss) for the year	**18,515,111**	**17,439,357**
Total liabilities and shareholders' equity	**5,620,158,274**	**5,247,725,066**

Income Statement

INCOME STATEMENT		31.12.2011	31.12.2010
Euro			
10.	Interest income and similar income	178,408,520	147,773,256
20.	Interest expense and similar charges	(61,553,704)	(41,329,729)
30.	**Interest Margin**	**116,854,816**	**106,443,527**
40.	Commission income	73,667,224	71,638,343
50.	Commission expense	(5,359,548)	(4,527,064)
60.	**Net commissions**	**68,307,676**	**67,111,279**
70.	Dividends and similar income	334,734	324,363
80.	Net income from trading activities	(6,592,396)	(2,688,546)
100.	Profit (Loss) from sale or repurchase of:	1,080,510	(625,157)
	a) receivables	*97,153*	*(2,058,416)*
	b) financial assets available for sale	*205,996*	*910,706*
	c) financial assets held to maturity	*5,865*	*13,774*
	d) financial liabilities	*771,496*	*508,779*
110.	Net profit (loss) from financial assets and liabilities carried at fair value	438,805	231,464
120.	**Banking margin**	**180,424,145**	**170,796,930**
130.	Net value adjustments/write-backs for impairment of:	(19,544,776)	(8,567,502)
	a) receivables	*(19,605,040)*	*(8,225,384)*
	b) financial assets available for sale	-	*(83,785)*
	c) financial assets held to maturity	-	-
	d) other financial transactions	*60,264*	*(258,333)*
140.	**Net income from financial management**	**160,879,369**	**162,229,428**
150.	Administrative costs:	(127,875,071)	(123,222,416)
	a) personnel costs	*(74,790,813)*	*(73,909,190)*
	b) other administrative expenses	*(53,084,258)*	*(49,313,226)*
160.	Net allocations to provisions for risks and charges	(891,860)	(2,045,544)
170.	Net adjustments/write-backs on tangible assets	(8,346,220)	(10,248,848)
180.	Net adjustments/write-backs on intangible assets	(1,425,122)	(1,826,821)
190.	Other operating costs/income	10,737,054	9,065,815
200.	**Operating costs**	**(127,801,219)**	**(128,277,814)**
210.	Profit (Loss) on equity investments	317,893	(2,085,889)
240.	Profit (Loss) from disposal of investments	53,537	(38,463)
250.	**Current operating profit (losses) before tax**	**33,449,580**	**31,827,262**
260.	Year-end income taxes for current operations	(14,934,469)	(14,387,905)
270.	**Net current operating profit (loss) after tax**	**18,515,111**	**17,439,357**
290.	**Profit (loss) for the year**	**18,515,111**	**17,439,357**

Statement of Comprehensive Income

Items *Euro*	31.12.2011	31.12.2010
10. Profit (loss) for the year	**18,515,111**	**17,439,357**
Other net of tax income items		
20. Financial assets available for sale	(4,130,835)	830,289
110. Total other net of tax income items	**(4,130,835)**	**830,289**
120. Comprehensive income (Item 10+110)	**14,384,276**	**18,269,646**

Statement of Changes in Shareholders' Equity

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2011

Euro	Balance at 31.12.10	Adjustment to opening balances	Balance at 01.01.11	Allocation of net result from previous year		Changes during the year								Shareholders' equity at 31.12.11
						Changes to reserves	Equity Transactions						Overall yield for 2011	
				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:	**232,426,318**	**-**	**232,426,318**	**7,038,261**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**239,464,579**
a) earnings	232,426,318	-	232,426,318	7,038,261	-	-	-	-	-	-	-	-	-	**239,464,579**
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Valuation reserves:	**72,932,013**	**-**	**72,932,013**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,130,835)**	**68,801,178**
Equity instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) for the year	**17,439,357**	**-**	**17,439,357**	**(7,038,261)**	**(10,401,096)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,515,111**	**18,515,111**
Shareholders' Equity	**537,911,053**	**-**	**537,911,053**	**-**	**(10,401,096)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,384,276**	**541,894,233**

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2010

Euro	Balance at 31.12.09	Adjustment to opening balances	Balance at 01.01.10	Allocation of net result from previous year		Changes during the year								Shareholders' equity at 31.12.10
						Changes to reserves	Equity Transactions						Overall yield for 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) earnings	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**

Cash Flow Statement

A. OPERATING ACTIVITIES	31.12.2011	31.12.2010
Euro		
1. Operations	**53,319,740**	**45,252,385**
- Interest income (+)	178,408,520	147,773,256
- Interest expense (-)	(61,553,704)	(41,329,729)
- Dividends and similar income (+)	229,734	242,085
- Net commissions (+/-)	68,307,676	67,111,279
- Personnel costs (-)	(74,790,813)	(73,909,190)
- Other costs (-)	(55,274,240)	(50,921,585)
- Other revenues (+)	12,927,036	10,674,174
- Taxes and duties (-)	(14,934,469)	(14,387,905)
- costs/revenues from groups of assets being disposed of, net of tax effect (+/-)	-	-
2. Cash flows generated by/used for financial assets	**(398,636,039)**	**(51,051,507)**
Financial assets held for trading	116,903,885	(16,150,074)
- financial assets carried at fair value	-	-
- Financial assets available for sale	(91,306,247)	42,755,929
- Loans to customers	(305,382,381)	(86,894,775)
- Loans to banks: on demand	3,659,124	533,009
- Loans to banks: other	(125,400,418)	666,406
- Other assets	2,889,998	8,037,998
3. Cash flows generated/absorbed by financial liabilities	**350,271,434**	**26,697,672**
- Payables to banks: on demand	22,900,422	(6,068,601)
- Payables to banks: other payables	108,469,077	270,322,453
- Amounts payable to customers	136,519,736	(19,514,707)
- Outstanding securities	95,419,208	(314,407,093)
- Financial liabilities held for trading:	(20,192,342)	(23,518,536)
- Financial liabilities carried at fair value	30,907,165	114,110,809
- Other liabilities	(23,751,832)	5,773,347
Net cash flow generated/absorbed by operating activities	**4,955,135**	**20,898,550**

B. INVESTMENT ACTIVITIES		
1. Cash flows generated by:	**8,024,086**	**3,915,249**
- Sale of equity investments	-	3,946,616
- Dividends from equity investments	105,000	82,278
- Sale/redemption of financial assets held to maturity	7,865,209	(122,737)
- Disposal of tangible assets	53,877	9,092
- Disposal of intangible assets	-	-
- Disposal of business branches	-	-
2. Cash flows absorbed by	**(3,198,618)**	**(9,620,637)**
- Purchase of equity investments	(30,000)	(2,500,000)
- Purchase of financial assets held to maturity	-	-
- Purchase of tangible assets	(2,393,106)	(6,542,451)
- Purchase of intangible assets	(775,512)	(578,186)
- Purchase of business branches	-	-
Net cash flow generated/absorbed by investment activities	**4.825.468**	**(5,705,388)**

C. FUNDING ACTIVITIES		
- Issue/Purchase of treasury shares	-	-
- Issue/Purchase of equity instruments	(5,063,609)	1,305,272
- Dividend distribution and other purposes	(10,401,096)	(10,401,096)
Net cash flow generated/absorbed by funding activities	**(15,464,705)**	**(9,095,824)**
NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR	**(5,684,102)**	**6,097,338**

RECONCILIATION	31.12.2011	31.12.2010
Cash and cash equivalents at the beginning of the year	**41,452,190**	**35,354,852**
Total cash generated/absorbed during the year	**(5,684,102)**	**6,097,338**
Cash and cash equivalents: impact of exchange differences	**-**	**-**
Cash and cash equivalents at year end	**35,768,088**	**41,452,190**

NOTES TO THE FINANCIAL STATEMENTS

PART A ACCOUNTING POLICIES

A.1. General Part

Section 1 Statement of compliance with international accounting standards

These financial statements, in application of Italian Legislative Decree no. 38 of 28 February 2005, are drafted in accordance with the international accounting standards IAS/IFRS enacted by the International Accounting Standards Board (IASB) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and are approved by the European Commission, as established by EU Regulation no. 1606 of 19 July 2002.

The following documents have been used as reference for the interpretation and application of international accounting standards, even though not approved by the European Commission:

- Framework for the preparation and presentation of financial statements;
- Implementation Guidance, Basis for Conclusions and any other necessary documents prepared by the IASB and by the IFRIC to complement the accounting standards issued.

The accounting standards and the relevant IFRIC interpretations applied in the drafting of these financial statements are those in force as at 31 December 2011.

For an overview on the standards approved during 2011 or on those approved in previous financial years, whose application is prescribed for 2011 financial year or, for future accounting years, refer to the subsequent “Section 4 – Other Aspects”, where the principal impacts on the Bank are illustrated also.

Section 2 Basis of Preparation

The financial statements are composed of the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the cash flow statement, and the notes to the accounts and are accompanied by the Directors Report on operations and on the Bank's situation.

The Bank of Italy's instructions contained in Circular Letter no. 262 of 22 December 2005 “Bank Financial Statements: drafting formats and rules”, and subsequent revisions were used to prepare the financial statements and the contents of the notes to the accounts.

These financial statements were drafted adopting the Euro as the reporting currency.

The amounts in the financial statements are expressed in Euro, whereas the data reported in the tables of the notes to the accounts are expressed – when not indicated otherwise – in thousands of Euro.

Based on the applicable provisions, the financial statements must be drafted with clarity and provide a true and fair view of equity income, and the financial position If the information required by the international accounting standards and by the instructions contained in the cited Circular Letter are deemed unsatisfactory to provide a true and fair view, additional information necessary for that purpose are provided in the notes to the accounts.

Should, in exceptional cases, the application of a provision envisaged by international accounting standards be incompatible with the true and fair view of equity, income, and the financial position, it is not applied. In this case, the justifications for any exemption and the influence thereof on the representation of the equity, income, and the financial position are explained in the notes to the accounts.

These financial statements are drafted in compliance with the following general principles:

- *Going concern:* the financial statements are drafted assuming continuity in the bank's activities.;
- *Accrual basis accounting:* the financial statements are drafted according to the accrual principle;

- *Consistency of presentation:* the presentation and classification of the items in the financial statements is constant from one financial year to the next, except when a principle or an interpretation requires a change in the presentation or in which another presentation or classification is deemed more appropriate making allowance for the provisions of IAS 8. In the latter case, the disclosure regarding the changes made with respect to the previous year is provided in the notes to the accounts;
- *Materiality and aggregation:* The balance sheet and income statement formats consist of items (marked by Arabic numerals), of sub-items (marked by letters), and of further informational details (the "of which" entries of the items and of sub-items). The items, the sub-items, and the relevant informational details make up the financial statement accounts. The formats comply with those defined by the Bank of Italy in the cited Circular Letter no. 262 of 22 December 2005 and subsequent revisions. New items may be added to the above-mentioned formats if their content cannot be attributable to any of the items already envisaged by the formats and only if significant amounts are involved. The sub-items envisaged by the formats may be grouped together when one of the following two conditions are met:
  a. the amount of the sub-items is negligible;
  b. the grouping favours the clarity in the financial statements; in this case, the notes to the accounts distinctly contain the sub-items subject to grouping.

  Accounts that have no associated sums for the financial year, or for the previous financial year are not indicated in the balance sheet or in the income statement.
- *The prevalence of substance over form:* transactions and other events are recorded and represented in conformity with their substance and economic reality and not only in accordance with their legal form;
- *Offsetting:* assets and liabilities, and income and costs are not offset unless this allowed or required by an international accounting standard or by an interpretation thereof or prescribed by the Bank of Italy's Circular Letter cited;
- *Comparative information:* for each balance-sheet and income-statement account, comparative information relative to the previous financial year is provided, unless an accounting standard or an interpretation does not allow it or prescribes otherwise. The data relative to the previous financial year may appropriately adapted, where necessary, to guarantee the comparability of the information relative to the current financial year. Any non-comparability, adaptation, or the impossibility to adapt the information are indicated and commented on in the notes to the accounts.

The notes to the accounts are broken down into parts. Each part of the notes are subdivided into sections, each of which illustrates an individual aspect of management.

Uncertainties associated with the 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 disclosure provided on potential assets and liabilities.

For the purpose of formulating reasonable estimates and assumptions for recognizing management transactions, they are formulated by subjective assessments based on the use of all available information as well as of the assumptions considered reasonable in view of historical experience.

In particular, the use of subjective assessments is required more by company management in the following cases:

- quantifying losses in value of financial assets, especially for loans and financial assets available for sale;
- determining the congruency of the goodwill and shareholdings;
- determining the fair value of the financial instruments to be used for reporting purposes in the financial statements and the use of valuation models for determining the fair value of financial instruments not listed in active markets;
- 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;

- quantifying 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 under current conditions.

Moreover, the valuations in the financial statements were made based on the going concern assumption, since there are no risks that might jeopardize the ordinary operations of the Bank. The disclosure regarding risks, with particular reference to liquidity risk, is contained in “Part E – Information on risks and related hedging policies”.

Section 3 SUBSEQUENT EVENTS

Significant events that took place in the period after the reference date for the financial statements and the approval date of the draft of the financial statements by the Board of Directors are described below.

State guaranteed securities

Art. 8 of Decree Law no. 201 of 6 December 2011 provides for the right to request the issuing of State-guaranteed securities, until 30 June 2012, for newly issued liabilities (typically bond instruments) on the part Italian banks.

On 18 January 2012, Banca Popolare dell'Alto Adige requested the granting of the State guarantee on its liabilities, under the terms and conditions provided for by art. 8 of the Law Decree 201/2011. On 27 January 2012, the Ministry of economy and finance authorized the issuing of the aforementioned unconditional, irrevocable guarantee, on first demand, on some of Banca Popolare dell'Alto Adige is financial liabilities.

The instruments so guaranteed, should they possess the other requirements anticipated by law, may be used as collateral for refinancing transactions at the European Central Bank.

The VOBA Finance 4 S.r.l. Securitization transaction

In January 2012, the Board of Directors authorized the realization of a securitization transaction for a loan portfolio consisting of mortgage loans and unsecured loans to small to medium enterprises (SMEs).

Like the previous VOBA Finance S.r.l., Voba Finance 2 S.r.l., and Voba Finance 3 S.r.l. securitization transactions, this was established to obtain instruments eligible for the refinancing transactions at the ECB to support liquidity requirements.

Section 4 OTHER ASPECTS

Terms for the approval and publication of the financial statements

Art. 135-sexies of Italian Legislative Decree 59/98 (Consolidated Law on Finance) prescribes that the financial statements be approved and the annual financial reports containing the financial statements, the Directors Report, and the certification under article 154-bis, paragraph 5 be published within one hundred twenty days after the close of the financial year.

The draft financial statements were approved by the Board of Directors Meeting of 9 March 2012 and shall be submitted for the approval of the general shareholders meeting to be convened on 17 April 2012.

Independent Audit

The financial statements are subject to audit by the company BDO S.p.A. in accordance with Italian Legislative Decree 58/98, in fulfilment of the mandate conferred upon said company for the 2010-2018 period with shareholder's resolution of 20 April 2010. The full audit report is published together with the annual financial report, in conformity with art 135-septies of Italian Legislative Decree. 58/98.

Amendments to the accounting standards approved by the European Commission

The table below lists the new international accounting standards or the amendments to accounting standards already in force, with the relevant approval regulations by the European Commission, that came into force at the start of the 2011 financial year

Approval Regulations	Title	In force for the financial year in course as of:
E.C. Reg. no. 1293 of 23 December 2009	IAS 32 – The classification of rights issues	1 February 2010
EC. Reg. no. 632 of 19 July 2010	IAS 24 – Related party disclosures IFRS 8 - Operating Segments	1 January 2011
EC. Reg. no. 149 of 18 February 2011	Improvements to the IFRS (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 32, IAS 34, IAS 39, IFRIC 13)	1 July 2011 for amendments to IFRS 3, 31 January 2011 for all other amendments
EC. Reg. no. 633 of 19 July 2010	IFRIC 14 – Amendments to the interpretation “Prepayments of a Minimum Funding Requirement”	1 January 2011
EC. Reg. no. 662 of 23 July 2010	IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	30 June 2010

With Regulations no. 1205 of 22 November 2011, certain amendments to IFRS 7 regarding disclosures for the transfers of financial assets were approved with the objective of promoting the transparency of the disclosure report regarding the transfer transactions. This amendment shall be applied starting with the financial statements for the year ended on 31 December 2012.

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

The financial statements as at 31 December 2011 were prepared applying the same accounting standards used for drafting the previous year's financial statements, supplemented with the approved amendments and in force starting from the 2011 financial year, indicated in "Section 4 – Other aspects - A. 1 – General Information".

The main accounting standards applied, described in detail by financial statement item, are listed below.

1. Financial assets held for trading

Classification criteria

This classification includes all the financial assets (debt securities, equity securities, mutual investment fund units, loans and derivatives, etc.) held for trading, (therein including the derivatives related to assets /liabilities carried at fair value. A derivative contract is a financial instrument whose value is related to the progression of an interest rate, the performance of a financial instrument, the price of a good, a currency exchange rate, a price or rate index or other indexes; it is settled on maturity and requires a limited initial net investment.

Derivative contracts include those contracts embedded in complex financial instruments that have been separately recognized, being that they satisfy all the following conditions:

- their economic characteristics and risks are not strictly correlated with the characteristics of the underlying contract;
- the embedded instruments, even if separate, satisfy the definition of a derivative;
- the hybrid instruments which they are part are not carried at fair value with the relevant variations recorded in the income statement.

Reclassifications to other financial asset categories are not allowed unless other unusual events occur and it is very unlikely they will reoccur, i.e. save for the cases explicitly anticipated by IAS 39. In these cases, debt and equity securities no longer held for trading may be reclassified to other categories anticipated by IAS 39 whenever the conditions for recognition are met (Financial assets held to maturity, Financial assets available for sale, Loans).

The transfer value is represented by the fair value at the time of the reclassification. During reclassification, a verification is conducted concerning the possible presence of embedded derivative contracts to be separated.

Initial recognition occurs on the settlement date for the debt securities and equity instruments and on the date of subscription for derivative contracts. At the time of the initial recognition, financial assets held for trading are recorded at fair value, without taking into account the transaction costs or proceeds directly attributable to the instrument itself.

Valuation criteria

Following the initial recognition, financial assets held for trading are recorded at fair value. The effects of the valuation are recorded in the income statement.

To determine the fair value of the financial instruments quoted in an active market, refer to the market prices. In the absence of an active market, valuation models are used that take into account all the risk factors correlated with the instruments and based on data obtainable on the market, such as: methods based on the valuation of instruments that have similar characteristics (the "comparables" method); discounted cash flow calculations: models for determining option prices; values recognized in recent comparable transactions (the "recent transactions" method).

Whenever approaches indicated above cannot be used, appraisal methods and valuation models are adopted that also consider inputs not directly observable on the market.

Equity securities and the correlated derivative instruments, for which it is impossible to reliably determine the fair value, are retained at cost and written down in case of impairment losses. Said impairment losses cannot be subject to subsequent reversal.

The profits and losses from trading and the valuation gains and valuation losses of the trading portfolio are recorded in the income statement under item “80. Net income from trading activities”, with the exception of that relative to derivative instruments related to the fair value option that are classified under item “110. Net income from financial assets and liabilities carried at fair value”.

Derecognition criteria

Financial assets are derecognized when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are transferred, with the substantial transfer of all related risks and rewards.

On the other hand, whenever a significant portion of the risks and rewards relevant to the financial assets sold have been retained, they continue to be recorded in the financial statements, even though legally the ownership of said assets has actually been transferred.

If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognized in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation, even partial, of said control entails the retaining the assets in the financial statements by a measure equal to its continuing stake, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Finally, the financial assets sold are derecognized in the financial statements if the contractual rights to receive the relevant cash flow have been retained, with the simultaneous assumption of an obligation to pay said flows, and only them, to other third party subjects.

2. Available-for-sale financial assets

Classification criteria

This category includes the non-derivative financial assets not classified as loans and receivables, assets held for trading, investments held to maturity or financial assets carried at fair value.

In particular, this item includes debt securities not subject to trading activity and not classified in the other portfolios cited above, equity investments not managed for trading purposes and not qualifiable as investments subsidiaries, associates, and joint ventures, including private equity investments, the shares of the subscribed syndicated bank facilities which, from the beginning, are meant to be sold, and the bonds which are not subject to trading activities.

In cases allowed by the accounting standards, reclassifications are allowed only to the category "financial assets held to maturity", except when unusual events occur and it is unlikely they can reoccur in the short-term. In these cases, the debt securities may be reclassified into the "financial assets held to maturity", and "loans" categories, anticipated by IAS 39, whenever the conditions for recognition exist. The transfer value is represented by the fair value at the time of the reclassification.

The initial recognition takes place on the settlement date for debt securities and equity instruments and, for loans, on the date they were disbursed.

At the time of initial recognition, the assets are recorded at fair value, which normally corresponds to the consideration paid, including the transaction costs or proceeds directly attributable to the instrument itself. If the recognition takes place subsequent to reclassification from assets held to maturity or when unusual events occur, from financial assets held for trading, the recognition value is represented by the fair value on the date of transfer, which represents the new amortized cost for the debt securities.

Valuation criteria

Following initial recognition, available-for-sale financial assets continue to be recorded at their fair value with the change in value corresponding to the amortized cost being recognized in the income statements, whereas any gains or losses resulting from a change in fair value are recognized in a specific reserve under shareholder's equity until the financial asset is derecognized or an impairment loss is recorded. At the time of the disposal or the recording of an impairment loss, the cumulative gains or losses are reversed, in whole or in part, in the income statement.

Fair value is determined based on the criteria already illustrated for financial assets held for trading.

Equity securities and the correlated derivative instruments, for which the fair value cannot be reliably determined, are retained at cost and written down if impairment losses are encountered.

The financial assets available-for-sale undergo impairment testing to identify objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the purchase cost of the asset and the fair value having deducted any impairment loss previously recognized.

As regards equity securities, a significant or prolonged reduction of fair value below the original book value is evidence of impairment.

The difference between the fair value and the book value is not ipso facto sufficient to conclude there has been an impairment loss. This evidence is simply a first signal of a possible impairment, which must however be supplemented by a qualitative analysis, aimed at identifying possible negative events, that might imply the assets' book value is not fully recoverable.

The value of any write-down recognized subsequent to this test is recorded in the income statement as a cost for the year.

If the reasons that led to the recognition of the impairment loss cease to apply subsequent to an event that occurred after the recognition, a write-back is recorded in the income statement if it refers to debt securities or loans, or to a specific reserve under shareholder's equity for the case of equity securities. For the debt securities and for the loans, this reversing of the impairment loss does not in any case result in a book value greater than what the amortized cost would have been had the loss not been recognized.

Derecognition criteria

The financial assets are derecognized in the financial statements only if the sale lead to the substantial transfer of all risks and rewards associated with the assets themselves.

If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognized in the financial statements whenever no control of any type has been retained over them. Otherwise, the preservation, even partial, of said control entails the retaining the assets in the financial statements by a measure equal to its continuing stake, measured by the exposure to changes of value of the assets sold and changes in their cash flows.

Finally, the financial assets sold are derecognized in the financial statements if the contractual rights to receive the relative cash flows are preserved, with the concomitant taking on of an obligation to pay said flows, and only them, to other third party subjects.

The available-for-sale financial assets may also be reclassified as “Financial assets held to maturity”, whenever:

- there has been a change in the intent or in the capacity to hold the instrument until maturity;
- a reliable measure of the fair value is no longer available (rare circumstances);
- the anticipated period for the “tainting rule” has lapsed and the portfolio of financial assets held to maturity may be re-established.

The available-for-sale financial assets may also be reclassified in the “Loans” portfolio, if the conditions listed in the subsequent paragraph “Other information, Reclassifications between financial asset portfolios (amendment IAS 39)” are met.

3. Financial assets held to maturity

Classification criteria

This category includes debt securities with a fixed term and fixed or calculable payments for which there the intent and capacity exists to hold them until maturity. If, subsequent to a change of will or of capacity, it is no longer appropriate to retain an investment in the "held to maturity" category, it is reclassified among the available-for-sale assets.

The financial asset is initially recognized on the settlement date. At the time of initial recognition, the financial assets classified in this category are recognized at fair value, that normally corresponds to the consideration paid, including any directly attributable costs and income. If the recognition in this category takes place due to reclassification from available-for-sale financial assets or from financial assets held for trading, the fair value of the assets on the reclassification date is assumed to be the amortized cost of the asset itself. For reclassifications from financial assets held for trading, which may occur under rare circumstances, refer to the paragraph "Other information, Reclassifications between financial asset portfolios (amendment IAS 39)".

Valuation criteria

After the initial recognition, the financial assets held to maturity are valued at the amortized cost, using the effective interest rate method. Gains or losses in reference to the fair value of assets held to maturity are recognized in the income statement at the moment when the assets are derecognized. At the close of the year and of the infra-annual reporting periods, impairment testing is performed to find objective evidence of impairment. If such evidence exists, the amount of the loss is measured as the difference between the asset book value and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment amount is recognized in the income statement.

If the reasons for impairment are removed subsequent to an event occurring after the recognition of the impairment, write-backs are made to the income statement.

Derecognition criteria

The financial assets are derecognized when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are sold, with the substantial transfer of all related risks and rewards.

The only reclassification allowed is that from the "Financial assets held to maturity" portfolio to the "Financial assets available for sale" portfolio.

The disposal or the transfer, for a significant sum, of financial assets held to maturity, before the maturity date itself, implies the transfer of the entire portfolio to the financial assets available for sale category and the prohibition against using the portfolio of assets held to maturity for the current financial year and for the next two financial years (the so-called "tainting rule"), unless the sales and the reclassifications:

- are so close to maturity or to the option date for the financial asset that the fluctuations of market interest rates would not have a significant effect on the fair value of the financial asset;
- take place after having substantially collected all the original capital of the financial asset;
- can be attributed to an isolated event that cannot be controlled, that is non recurring, and that therefore cannot not be reasonably predicted, such as, for example a significant impairment of the creditworthiness of the entity that issued the financial asset.

4. Loans

Classification criteria

Loans include loan commitments with customers and with banks that anticipate fixed or in any case calculable payments, not listed in an active market. The "loans" item also included the trade receivable, loans originating from financial leasing transaction, repurchase agreements with forward sellback obligations, securities purchased through subscription or private placement, with calculated or calculable payments, not listed in active markets.

Reclassifications in other categories of financial assets anticipated by IAS 39 are not allowed.

As regards the loans acquired without recourse, they are included under the item loans, subject to verifying that no contractual clauses exist that significantly alter exposure to the transferee company's risk.

These also include “stock loan” transactions with the payment of pecuniary guarantee. These transactions are recorded as lending transactions and do not result in any movement of the owned securities portfolio.

Loans are initially recognized on the date when they were disbursed or, in case of a debt security, on the settlement date, based on the fair value of the financial instrument. The latter is normally equal to the amount disbursed, or to the subscription price, including the costs/income directly attributable to the individual loan and calculable since the start of the transaction, even though paid at a later time. Costs having the aforesaid characteristics that will be repaid by the debtor or that can be considered as standard internal administrative costs are excluded.

If recognition in this category takes place due to reclassification from available-for-sale financial assets or from financial assets held for trading, the subscription price corresponds to the fair value, assumed to be the amortized cost of the asset itself, existing on the date determined for the transfer. For further details, refer to the subsequent paragraph “Other information, Reclassifications between financial asset portfolios (amendment IAS 39)”.

For any lending transaction concluded at other than market conditions, fair value is determined using special valuation techniques; the difference between the amount disbursed and the subscription price is charged directly to the income statement.

Valuation criteria

After the initial recognition, loans are valued at amortized cost, equal to the initial recognition value reduced/increased by capital repayments, by any value adjustments/write-backs and the amortization – calculated based on the effective interest rate – of the difference between the sum disbursed and that repayable at maturity, usually the cost/income directly attributed to the individual loan. The effective interest rate is identified calculating the rate at which the present value of the future flows of the loan, for capital and interest, is equal to the amount disbursed, including costs/income attributed to the loan.

The estimation of cash flows must factor in all the contractual clauses that may influence the amounts and the maturity dates, without however considering the expected losses on the loan. 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 amortized cost method is not used for loans whose short duration makes this effect negligible. Such loans are valued at historical cost. The same valuation criteria are adopted in the case of on-demand loans or loans whose duration is undetermined.

At the end of each year or infra-annual reporting period, loans are recognized to identify those which, subsequent to events that occurred after their recognition, show objective evidence of a possible impairment loss. Included within this remit are those loans that assigned to bad debt, watch-list, or restructured status, in accordance with the current Bank of Italy rules, consistent with the IAS standards.

These non-performing loans are subject to an analytical valuation process and the total write-down for each loan is equal to the difference between the book value or infra-annual value at the time of the valuation (amortized cost) and the present value of the expected future cash flows, calculated applying the original effective interest rate.

The expected cash flows take into account the expected recovery times, the estimated realizable value of any guarantees, as well as the expected incurred costs to recover the credit exposure.

The cash flows relative to loans expected to be recovered in the short term are not converted to a present value equivalent. The effective original rate of each loan remains unchanged over time even if there has been a restructuring of the relationship that entailed the change of the contractual rate and even if the relationship, in practice, does not pay the original contractual interest.

The write-down is recorded in the income statement. The original value of the loan is written back in the subsequent financial years to the extent by which the reasons that led to the adjustment cease to exist, provided that said valuation is objectively associated with an event that took place after the adjustment itself. The write-back is recorded in the income statement and in any case may not exceed the amortized cost which the loan would have had in the absence of previous adjustments.

The list of non-performing loans also includes past due exposures, i.e. loans that show continuous over-runs or delayed payments, according to the actual rules established from Bank of Italy. The adjustments of said loans, though determined in accordance with a lump-sum/statistical-type calculation methodology, are represented as “Specific value adjustments”, in observance of the instructions contained in the Bank of Italy's Circular Letter no. 262.

Loans for which no objective evidence of impairment loss has been individually identified, therein including those to counterparties in countries at risk, are valued on a collective basis. This valuation takes place for loan categories homogeneous in terms of credit risk and the relevant percent impairments are estimated taking into account historical series, based on facts observable on the date of the valuation, that allow the value of the latent impairment to be estimated in each loan category. The collectively determined value adjustments are charged to the income statement. At the end of each year and each infra-annual reporting period, any additional adjustments or write-backs are recalculated differently in relation to the entire portfolio of performing loans on the same date.

Derecognition criteria

The loans sold are derecognized in the financial statements only if the disposal lead to the substantial transfer of all the risks and rewards associated with the loans themselves. However, whenever the risks and rewards relative to the loans transferred have been retained, the loans continue to be recorded among the assets, even though legally the ownership of the loan has actually been transferred.

If it is impossible to ascertain the substantial transfer of the risks and rewards, the financial assets are derecognized whenever no control of any type has been retained over them. Otherwise, the retention, including the partial retention, of said control entails the retaining of the loans by a measure equal to the remaining investment, measured from the exposure to changes of value of the loans sold and variations of the their cash flows. Finally, the loans sold are derecognized if contractual rights to receive the relative cash flows are preserved, with the concomitant assumption of an obligation to pay said flows, and only them, to other third party subjects.

5. Hedging Transactions

The hedging transactions seek to neutralize potential recognizable losses on a specific component or group of components attributable to a specific risk, in case that specific risk actually occurs.

IAS 39 envisages the following types of hedges:

- fair value hedge, with the objective of hedging exposure to the change in the fair value of an asset or liability in the financial statements attributable to a particular risk;
- cash flow hedge, that has the objective of hedging exposure to changes of future cash flows attributable to particular risks associated with a recognized asset or liability;
- the hedging an investment in a foreign currency, that entails hedging risks of an investment in a company expressed in foreign currency;
- fair value macro-hedge ("macro-hedging") with the objective of reducing the fluctuations of fair value, attributable to interest rate risk, by a monetary amount, originating from a portfolio of financial assets and liabilities (including the "core deposits"). Net amounts deriving from the differences in assets and liabilities cannot be macrohedged.

Hedging derivatives are initially recorded at fair value.

Hedging derivatives are subsequently carried at fair-value. In case of fair-value hedging, the change in the fair value of the component hedged is offset by the change of fair value of the hedging instrument. This offsetting is recognized through the recognition of the changes in value in the income statement, referring both to the hedged item (as regards the variations produced by the underlying risk factor), and to the hedging instrument. Any difference, which represents the partial ineffectiveness of the hedge, is therefore the net economic effect.

The derivative instrument is designated as a hedges if formalized documentation of the relationship between the hedged instrument and the hedging instrument exists and if it is in effect when the hedge begins and, in perspective, throughout the duration of the hedge. The hedge's effectiveness depends on the measure to which the changes of fair value of the hedged instrument are offset by those of the hedging instrument.

Therefore the effectiveness is appraised by comparing the aforesaid changes, taking into account the intent pursued by the company at the moment when the hedge was implemented. Effectiveness is achieved when the changes of the fair value of the hedged financial instrument neutralize each other, i.e. in the 80-125% range, the changes in the fair value of the risk being hedged with reference to the hedged instrument. The effectiveness assessment is conducted at the end of each financial year or infra-annual reporting period by means of:

- forward testing, that justifies the application of hedge accounting, being that they demonstrate its expected effectiveness;
- back testing, that show the degree of hedge effectiveness attained during the reference period. In other words, they measure how much the actual results diverge from perfect hedging.

If the tests do not confirm the effectiveness of the hedge, from that point on, the accounting of hedging transactions, according to that stated above, is interrupted, the derivative hedging contract is reclassified among the trading instruments, and the hedged financial instrument reacquires the valuation criteria corresponding to its classification in the financial statements.

As at the balance sheet date, the bank has no ongoing hedging transactions.

6. Financial assets carried at fair value

Classification criteria

A financial asset is designated at fair value during initial recognition, with the effects of said designation recorded in the income statement, only when:

1. it involves a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that would otherwise be anticipated by the contract;
2. the fair value designation recognized in the income statement allows better disclosure in so far that:
   i. it considerably eliminates or reduces a lack of uniformity in the valuation or in the recognition that would otherwise result from the asset or liability valuation or from the recognition of the relevant profits and losses over different bases;
   ii. a group of financial assets, financial liabilities, or both is managed and its progression is valued based on the fair value according to a documented risk management or investment strategy, and the information on the group is provided internally on that basis to the key management personnel.

Valuation criteria

The financial assets under study are carried at *fair value* from the moment of the first recognition, which takes place based on the settlement date. The initial income and expenses are immediately charged to the income statement.

Fair value is determined based on the criteria already illustrated for financial assets held for trading.

Derecognition criteria

Financial assets are derecognized when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are transferred, with the substantial transfer of all related risks and rewards.

7. Equity investments

Classification criteria

This item includes investments in direct subsidiaries, associates, and joint ventures as well as minority interests in subsidiaries and affiliates.

A company over which control is exercised is defined to be a “subsidiary”. This situation occurs when the power exists to directly or indirectly determine the administrative and operational decisions of the company in such a way as to obtain the relevant reward. This occurs when more than half of the voting rights are held, directly and/or indirectly, or if other conditions of de facto control are present such as, for example, the appointment of the majority of the Directors.

Associated companies are considered to be non-subsidiaries in which a significant influence is exerted. It is presumed that the company exerts a significant influence in all cases where it holds a share of 20% or higher of the voting rights and, regardless of the shares owned, whenever it has the power to participate in the operational and financial decisions of the associated companies.

Those companies, for which contractual arrangements or other types of arrangements exist, based on which unanimous consent is required, from all parties sharing control, to make financial and operational decisions of strategic significance, are considered joint ventures.

Financial assets are initially recognized on the settlement date at the acquisition cost, supplemented by directly attributable costs.

Valuation criteria

Subsequent to initial recognition, equity investments are valued at cost, adjusted for impairment losses if necessary.

If evidence exist that the value of an equity investment may have been impaired, the recoverable value of the equity investment, which represents the greater value between the fair value, net of selling costs, and the value in use, is estimated. Value in use is determined discounting the future cash flows that the equity investment may generate, including the final disposal value of the investment. If the recovery value is less than the book value, the corresponding difference is recognized in the income statement. If the reasons for impairment are removed subsequent to an event occurring after the recognition of the impairment, write-backs are made to the income statement.

Dividends are recorded as revenue when the right to receive them arises, that is, when the distribution thereof is resolved upon, regardless whether they involve dividends generated before or after the date of acquisition.

If there is a loss of control, association or joint control, as a result of the partial disposal of the equity investment, the remaining stake retained is recorded in the financial statements at fair value and the profits and losses with respect to previous book value are recognized in the income statement.

Derecognition criteria

Financial assets are derecognized when the contractual rights to cash flows deriving from the assets themselves expire or when the financial assets are transferred, with the substantial transfer of all related risks and rewards.

8. Tangible assets

Classification criteria

Tangible assets include land, capital goods, property investments, plant engineering systems, fixtures, fittings, furnishings, and equipment of any type. These are tangible assets held for use in production or in the supply of goods and services, to be leased to third parties, or for administrative purposes, and that are expected to be used for more than one period.

Assets used within the scope of financial lease agreements, even if the lessor has retained the legal ownership thereof, are also recorded under this item. Finally, the item includes the improvements and the incremental expenses incurred on third-party assets, if the tangible assets are identifiable and separable.

Tangible assets are initially recorded at cost, which includes, in addition to the acquisition cost, all accessory costs directly attributable to the acquisition and the commissioning of the asset. The extraordinary maintenance expenses that entail an increase in the future economic rewards, are allocated to increase the value of the assets, whereas the other ordinary maintenance costs are recognized in the income statement.

The renovation costs of unowned real-estate assets are capitalized considering the fact that, for the duration of the lease contract, the user company has control over the assets and may draw future economic benefits therefrom. These expenses are depreciated for a period not greater than the duration of the lease contract.

Valuation criteria

Tangible assets, including non-capital goods, are valued at cost, having deducted any depreciation expense and impairment losses. Tangible assets are depreciated every year throughout their useful life, on a straight line basis, except for:

- land, whether acquired individually or incorporated in the value of the buildings, because it has an indefinite useful life. If its value is incorporated in value the building value, in virtue of the application of the component approach, it is considered an asset separable from the building; the value of the land and of the building are subdivided place based on the independent expert opinions;
- artistic patrimony, since the useful life of a work of art cannot be estimated and its value is normally destined to increase over time.

At the end of each year or each infra-annual reporting period, if any evidence exists that demonstrates an asset may have suffered an impairment loss, a comparison is made between its book value and its recoverable amount, equal to the higher value between the fair value, net of any selling costs, and the related value in use of the asset, understood to be the actual value of future cash flows expected from the asset. Any adjustments are recognized in the income statement. If the reasons that led to the recognition of the impairment loss cease to apply, a write-back, that may not exceed the value that the asset would have had, net of depreciation calculated in the absence of previous impairment losses, is recorded

Derecognition criteria

A tangible asset is derecognized in the balance sheet upon disposal thereof or when the asset is permanently withdrawn from use and no future economic reward is expected from its disposal.

9. Intangible assets

Classification criteria

Intangible assets are non-monetary assets, identifiable and without physical substance, possessed to be used in a multiyear period. Intangible assets are recorded at cost, adjusted for any accessory charges, only if it is likely that the economic rewards attributable to the asset will be realized, and that the asset's costs can be reliably determined. Otherwise, the cost of the intangible assets is recognized in the income statement in the financial year in which it is incurred.

In particular, intangible assets include:

- technology-based intangible assets, such as application software, which are depreciated as a function of the assets' obsolescence and within a maximum period of five years;
- goodwill.

Goodwill may be recorded when the positive difference between the fair value of the equity components acquired and the acquisition cost or recognition value (including accessory expenses) represents the future capacity of the equity investment to generate profit ("goodwill"). If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the equity investment acquired, the difference itself is instead recognized directly in the income statement.

Valuation criteria

The cost of the intangible assets with a defined useful life is depreciated on a straight-line basis or through accelerated depreciation with allowances determined as a function of the inflow of the economic rewards expected from the asset.

Intangible assets with an indefinite useful life, including goodwill, are not instead subject to systematic depreciation. They are subject to periodic verification of the suitability of the carrying value.

In particular, a periodic verification is performed, at least once per year, on whether an enduring diminution of value exists.

If any evidence demonstrating that an asset may have suffered an impairment loss exists, the recovery value of the asset will be appraised. The amount of the impairment loss, recognized in the income statement, is equal to the difference between the asset book value and the recoverable value.

Every year (or whenever evidence of an impairment loss exist) a test is performed to verify the suitability of the goodwill value. The amount of any impairment is calculated based on the difference between the recognition value of the goodwill and the realization value of the Cash Generating Unit to which the goodwill was attributed. The recovery value is equal to the higher value between the fair value of the Cash-Generating Units, net of any selling costs, and the relative value in use. The resulting write-downs are recognized in the income statement.

Derecognition criteria

An intangible asset is derecognized in the balance sheet at the time of disposal and whenever no future economic rewards from its use or its disposal are expected.

10. Non-current assets and groups of assets held for disposal and related liabilities

Non-current assets/liabilities and groups of assets/liabilities held for disposal are classified among these items.

Classification under this item is possible whenever the disposal is deemed highly probable. In particular, such assets/liabilities are valued as the lesser value between the book value and their fair value net of selling costs.

Assuming that the assets being disposed of are depreciable, the depreciation process ceases starting from financial year in which they are classified among non-current assets held for disposal. The relevant income and expenses are shown in the income statement under separate items, net of the tax effect when they regard discontinued operations. In this case, the same economic information is also presented under separate items for the comparative periods shown in the financial statements.

11. Current and deferred taxes

Classification criteria

These items include current and prepaid tax assets and the current and deferred tax liabilities, respectively.

Income taxes for the period, calculated in compliance with tax regulations in force, are recorded in the income statement based on the accrual criteria, consistent with the recognition in the financial statements of the costs and of the revenues which generated them. Exceptions to this are taxes relative to items charged or accredited directly to shareholders' equity, for which the relative tax is recognized, for the sake of being consistent, in shareholders' equity.

Subsequent to the adoption of domestic tax consolidation with reference to the holdings in VOBA Invest S.r.l. in liquidation, the tax positions attributable to the Bank and those originating from VOBA Invest S.r.l. are managed distinctly in administrative terms.

Current tax assets and liabilities

Current tax assets and liabilities contain the net balance of the Bank's tax position in relation to the tax authorities. In particular, these postings include the net balance between the current tax liabilities for the financial year, calculated based on a prudent expectation of the tax burden due for the year, determined based on the tax regulations in force, and the current tax assets represented by advances and by the other tax credits for withholding taxes incurred or other tax credits of previous financial years for which the Bank has requested offsetting with the taxes of later financial years. The current tax assets also include the tax credits for which the Bank has requested repayment from the relevant tax authorities.

The current tax assets and liabilities are presented in the balance sheet with compensated balances, whenever settlement will take place based on the net balance, due to the existence of a legal right to compensation.

Deferred tax assets and liabilities

Deferred taxes are determined based on the so-called balance sheet liability method, making allowance for the tax effect associated with the temporary differences between the book value of the assets and liabilities and their tax value, which will determine taxable or deductible income in future periods. For this reason, “temporary taxable differences“ are understood to be those differences that will result in taxable income in future years, and “deductible temporary differences” are understood to those which differences that will result in deductible income in future years.

Deferred taxes are calculated applying the tax rates established by the statutory provisions in force to the temporary taxable differences for which taxes are likely to be incurred and to the deductible temporary differences for which it is reasonably certain that future taxable income will result when the corresponding fiscal deductions are made (the so-called probability test).

Prepaid and differed taxes relative to the same tax and coming due in the same said period are compensated.

Whenever the deferred tax assets and liabilities refer to components that affect the income statement, the corresponding entry is represented by the income taxes for the period.

Tax liabilities include the allocations, made based on IAS 37, to manage the expenses that could result from already announced audits or in any case from ongoing disputes with the tax authorities.

12. Provision for risks and charges

The provision for risks and charges consist of liabilities of uncertain amounts or due dates and are recognized in the financial statements if:

- an present obligation (legal or implicit) exists owing to a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to fulfil the obligation;
- a reliable estimate of the probable future disbursement may be made.

The amount recognized as a provision represent the best estimate of the expense required to fulfil the obligation existing on the financial statements reference date and reflects risks and uncertainties that inevitably characterize a large number of facts and circumstances. The provision and the increased due to the time factor are recognized in the income statement. The provision is reversed when it becomes unlikely that resources capable of producing economic rewards will be used to fulfil the obligation or when the obligation expires.

The item "Provisions for risks and charges" includes the provisions relative to long term services and to services subsequent to the termination of employment dealt with by IAS 19 and the provisions for risks and charges dealt with by IAS 37.

The item provisions for risks and charges does not include the write-downs due to the impairment of the guarantees provided and of similar credit derivatives in accordance with the IAS 39, which are recorded in the financial statements under the item “Other liabilities”.

The sub-item “other provisions for risks and charges” includes the allocations against presumed losses for petitions and lawsuits, including revocatory actions, the estimated disbursement for customer claims regarding the stockbroking activity, as well as a reliable estimate of the other disbursement against any other legal or implied obligations existing as at the close of the financial year or of the infra-annual reporting period.

If the time factor is significant, the provisions are converted into a present value equivalent using current market rates. The time-discounting effect is recognized in the income statement, as well as the increase of the provision owing to the passing of time.

Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate. When it becomes unlikely that resources, capable of producing economic rewards will be used to fulfil the obligation, the provision is reversed.

Furthermore, each fund is used only to manage those outlays for it was originally established.

The sub-item "pension funds and similar obligations" including any benefit plan provisions, i.e. the retirement benefit plans for which a guarantee was issued on the return of capital and/or on the yield in favour of the beneficiaries. The benefits that be allocated in the future are valued by an external actuary, using the “projected unit credit method”, as required by IAS 19.

13. Payables and outstanding securities

Classification criteria

The items “due to banks”, “due to customers” and “outstanding securities” comprise the various forms of interbank funding and funding with customers and deposits made through outstanding certificates of deposit and bond securities, net of any amount repurchased. Also included are the debts recorded by the lessee in financial leasing operations, as well as the reverse repurchase agreements and security loans involving the receipt of pecuniary guarantees.

Such financial liabilities are first recorded upon receiving the deposits or upon issuing the debt securities. Initial recognition is made based on 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.

The reverse repurchase agreements with repurchase obligation are recorded in the financial statements as deposits for the amount paid in the spot transaction.

Valuation criteria

After the initial recognition, the financial liabilities are valued at amortized cost with the effective interest rate method. Exceptions to this are short-term liabilities, where the time factor proves to be negligible, that remain recorded at the collected value.

Derecognition criteria

Financial liabilities are derecognized in the balance sheet or infra-annual reports when they expire or are extinguished. Derecognition also takes place in case of the repurchase of liabilities previously issued.

Derecognition takes place based on the fair value of the component issued and of the component repurchased on the purchase date.

The difference between the book value of the liability and the amount paid to buy it are charged to income statement.

The possible re-placement of own liabilities subsequent to their repurchase is considered as a new issue and therefore they are recorded based on the new placement price, without recognizing any income component.

14. Financial liabilities held for trading

Classification criteria

This item includes the negative value of the trading derivative contracts carried at fair value and the financial liabilities for cash held for trading.

Also included are the negative values of the derivatives associated with assets and with the liabilities carried at fair value, the embedded derivatives that pursuant to IAS 39 have been separated from the host composite financial instruments, as well as the liabilities deriving from the technical losses generated by the trading of securities

The first recording is made based on the fair value of the liabilities, normally equal to the amount collected, without considering the transaction costs or income directly attributable to the instrument itself, which are charged directly to the income statement.

Valuation criteria

After the first recording, they are carried at fair-value. The profits and losses deriving from the change of fair value and/or from the sale of the trading instruments are recorded in the income statement.

Derecognition criteria

Financial liabilities are derecognized in the balance sheet or infra-annual reports when they expire or are extinguished.

The profits and losses from trading and the valuation gains and losses of the trading portfolio are recorded in the income statement under the item “Net income from trading activities”, with the exception of those relative to derivative instruments related to the fair value option which are classified under the item “Net income from financial assets and liabilities carried at fair value”.

15. Financial liabilities carried at fair value

Classification criteria

A financial liability is carried at fair value recognized in the income statement during the initial recognition only:

1. when it entails a hybrid contract containing one or more embedded derivatives and the embedded derivative significantly modifies the cash flows that would otherwise be anticipated by the contract; i.e.
2. the fair value designation recognized in the income statement allows better disclosure in so far that:
    i. it considerably eliminates or reduces a lack of uniformity in the valuation or in the recognition that would otherwise result from the asset or liability valuation or from the recognition of the relevant profits and losses over different bases;
    ii. a group of financial assets, financial liabilities, or both, are managed and its performance is valued based on fair value in accordance with a documented risk-management or investment strategy. Based on this, the group information is provided internally to the key management personnel.

Valuation criteria

The financial assets under study are carried at fair value from the moment of the first recording. The initial income and expenses are immediately charged to the income statement.

Derecognition criteria

Financial liabilities are derecognized in the balance sheet or infra-annual reports when they expire or are extinguished. In the case of financial liabilities represented by securities issued, derecognition also takes place in case of the repurchase: the difference between the book value of the liabilities and the amount paid to buy it are recorded in the income statement. The re-placement of own securities on the market subsequent to their repurchase is considered like a new issue with recording at the placement price, without any effect on the income statement.

16. Currency transactions

Foreign currency transactions are recorded, at the time of initial recognition, in the reporting currency, applying the exchange rate in effect on the date of the transaction to the amount in foreign currency.

Upon the close of each financial year or infra-annual reporting period, the postings in foreign currency are valued as follows:

- the monetary components are converted at the exchange rate on the closing date;
- the non-monetary components valued at historical cost are converted at the exchange rate in effect on the date of the transaction;
- the non-monetary components carried at fair value are converted at the exchange rate in effect on the closing date.

A monetary component is the right to receive, or the obligation to deliver a fixed or determinable number of monetary units. Conversely, the fundamental characteristic of the non-monetary components is the absence of the right to receive, or the obligation to deliver a fixed or determinable number of monetary units.

Exchange rate differences relating to the settlement of non-monetary components or to the conversion of monetary components at exchange rates other from those used for the initial conversions, or for conversion of the previous financial statements, are recognized in the income statement for the period in which they were made.

When a profit or a loss relative to a non-monetary component is recorded in shareholders' equity, the exchange difference relative to said component is also recognized in shareholders' equity. However, when a profit or a loss is recognized in the income statement, the relative exchange difference is recognized in the income statement also.

Costs and the revenues in foreign currency are recognized at the exchange rate in effect at the time when recorded or also, if they have not yet matured, at the exchange rate in effect as at the balance sheet date.

17. Other Information

a) Content of other financial statement items

Cash and cash equivalents:

The item includes currencies that are legal tender, including banknotes, foreign divisional coin, and demand deposits with Central Banks. The item is recorded at face value. For foreign currencies, the face value is converted into Euro at the closing exchange as at the period end date.

Other assets

Assets than cannot be imputed to other balance-sheet asset items are recorded here. This item may include by way of example:

a) gold, silver, and precious metals;
b) accrued income other than that capitalized on the relevant financial assets;
c) any asset inventories in accordance with the definition of IAS 2;

d) the improvements and the incremental expenses incurred on third-party assets other than those belonging to the item “tangible assets”. In particular, assets that cannot be separated from the assets to which they refer and therefore not autonomously usable are classified under this item. These costs are recognized in the other assets being that, as a consequence of the lease contract, the user company has control over the assets and may draw future economic benefit from their use;

e) receivables related to the supply of non-financial. goods or services

These may also include unprocessed and suspended transactions (with a “debit balance”) not attributed to the accounts to which they belong, provided they are negligible.

Other liabilities

Liabilities that do not belong to the other balance sheet liabilities appear in this item.

The item includes, by way of example:

a) the payment arrangements that must be classified as liabilities in accordance with IFRS 2;

b) the value of first recording of the guarantees provided and similar credit derivatives in accordance with IAS 39, as well as the subsequent write-downs from their impairment;

c) debts associated with the payment for deliveries of non-financial goods and services;

d) accrued expenses other than those to be capitalized on the relevant financial liabilities.

Staff severance indemnities

Subsequent to the entry into force of the 2007 Finance act, that advanced the reform of the complementary pension plans under Italian Legislative decree no. 252 of 5 December 2005 to 1 January 2007, the staff severance indemnities only refer to interests accrued until 31 December 2006.

In particular, the portions of staff severance indemnities accrued starting from 1 January 2007 are recorded as a “defined contribution plan” based on IAS 19. The relative expense is limited to the contribution defined by the provision of the Italian Civil Code, without the application of any actuarial methods.

The staff severance fund accrued as at 31 December 2006 instead continued to be recorded as a defined benefit plan in accordance with the provisions of IAS 19. Nevertheless, the liabilities associated with the staff severance fund accrued are actuarially assessed without applying the pro-rata value for the service rendered being that the service to be evaluated may be considered fully accrued.

Valuation reserves

Valuation reserves relative to the available-for-sale financial assets, to the foreign investment hedges, to the cash flow hedges, to the exchange differences from conversions, to the "individual assets", and to the groups of assets held for disposal, are included in this item. The revaluation reserves recorded applying the special revaluation laws, even if subject to fiscal “exemption”, are also included

Share capital and treasury shares

The item share capital includes the amount of the shares, both ordinary and preferred, issued net of any subscribed capital not yet paid-in. The item is presented gross of any treasury shares retained by the bank. The latter are presented with a negative sign in the namesake item of the balance sheet liabilities.

The historical cost of treasury shares repurchased and the ensuing profits or losses from their subsequent sale are recognized as movements of net equity.

The transaction costs relative to a share capital transaction, such as for example a share capital increase, are recorded as reduction of the shareholders' equity, net of any related fiscal benefit.

b) Illustration of other significant accounting treatment

The recognition of income and dividends

The revenues resulting from the use, by third parties, of company assets that generate interest, commissions, and dividends, must be recognized when is likely that company will enjoy the economic rewards deriving from the transaction and the amount of the revenues may be reliably assessed. The interest and the commissions are recognized in the income statement based on the classification of the financial instrument to which they refer, whereas dividends are recognized when the shareholders' right to receive them has matured. The other commissions are recognized according to the accrual principle.

Costs are recorded in the period they are incurred following the criteria of the correlation between costs and revenues which derive directly and jointly from the same transactions or events. If instead, the correlation between costs and revenues is only possible in a generic and indirect way, the costs are recorded over several periods in accordance with a systematic allocation method. Whenever the costs cannot be associated with the revenues, they are immediately recorded in the income statement.

The late payment interest, if envisaged by contract, is recorded in the income statement only when actually collected;

Securitizations

All outstanding securitization transactions were performed after 1 January 2004.

The loans assigned are not derecognized from the financial statements when there is a substantial retention of the risks and rewards, even if formally subject to assignment without recourse to a special-purpose vehicle. This occurs, for example, whenever the bank subscribes the tranche of Junior securities or similar exposures, since it bears the risk of the first losses and, likewise, benefits from the transactions earnings.

Consequentially, the loans are appear in the financial statements as “Assets transferred and not derecognized ” with respect to the loan received from the special-purpose vehicle, net of securities thereby issued and subscribed by the transferor bank. Similar representation criteria, based on substance over form, are applied for the recognition of the accrual periods.

Reclassifications among financial asset portfolios (amendment IAS 39)

On 13 October 2008, the IASB approved an amendment to IAS 39 and IFRS 7, approved with emergency procedures by the European Commission on 15 October 2008 with Regulation no. 1004/2008.

Based on this change, under specific conditions, financial instruments recorded at the time of acquisition within the “Financial assets held for trading” category or the “Financial assets available for sale” category, may be reclassified into another accounting category. Before this change, the general rule anticipated that category transfers were not allowed, except for transfers between the “Financial assets available for sale” and the “Financial assets held to maturity” categories.

Based on the instructions in paragraphs 50D and 50E of the new version of IAS 39, the following reclassifications may be made:

- financial instruments, other than derivatives, previously classified as financial instruments held for trading. It is not possible instead to reclassify the financial instruments belonging to the category “Financial assets carried at fair value” subsequent to the adoption of the so-called “fair value option”. The new accounting category of destination is “Loans”. The condition to qualify for reclassification is that the financial instrument complies, on the transfer date, with the requirements anticipated for the classification in the Loans” portfolio and that the company no longer intends to trade the securities subject to reclassification, having reached its intention to hold the financial instrument for the predictable future or until maturity;
- the non-derivative financial instruments classified in the category “Financial assets available for sale” to the accounting category “Loans”, if the corresponding financial instrument, on the reclassification date, met the definition of a “Loans” and the company now has the intent and the capacity to hold it in the predictable future or until maturity.

Any other non-derivative debt instrument or capital instrument may be reclassified from the category “Financial assets held for trading” to the category “Available-for-sale assets” or from the category “Assets held for trading” to “Assets held to maturity” (only for the debt instruments), whenever said instruments are no longer held for trading in the short term; i.e. it is admissible, according to paragraph 50 B, only in rare circumstances.

The reclassified financial asset is recorded in the new category (“Loans”, “Financial assets held to maturity”, “Financial assets available for sale”) at its fair value, which represents the new cost or amortized cost as at its reclassification date.

Once transferred, the financial instruments follow the accounting valuation and recognition rules characteristic of the destination category, with the exception of that specified further on; therefore, for assets valued at amortized cost, the effective rate of return to be used starting from the date of the reclassification must be determined.

For the reclassified assets, every possible subsequent positive change in the expected cash flow helps determine the effective interest rate on the reclassification date and will be recorded throughout the remaining residual life of the instrument instead of modifying the asset's book value with an income statement corresponding entry, as anticipated for assets not subject to reclassification.

Vice versa, any subsequent decreases in the cash flows estimates from the reclassification date will follow the rules previously in force, i.e. they will be immediately recorded in the income statement if they represent an impairment loss.

The profits and losses previously suspended in the shareholders’ equity reserve for the available-for-sale financial assets, if referring to an instrument with a predetermined maturity, are amortized throughout the investment's life, according to the amortized cost criteria; vice versa if the instrument does not have a predetermined maturity (perpetual instruments for example) they remain suspended in the reserve until the time of sale or of extinction.

In case of reclassification of the financial asset and until its extinction, it is necessary to provide an illustration of the consequential effects and of those that would have occurred in the absence of reclassification.

Business Combinations and Goodwill

A business combination consists in the joining of distinct companies and business activities in a single subject required to draft financial statements.

A combination may give rise to a participatory relation between the Parent Company acquirer and the subsidiary acquired. Under these circumstances, the acquirer applies IFRS 3 in the consolidated financial statements whereas in the separate financial statements, it recognizes the interest acquired as an investment in subsidiaries applying the accounting standard IAS 27 “Consolidated and Separate Financial Statements”.

A combination may also anticipate the acquisition of the net assets of another entity, including any goodwill, or also the acquisition of another entity's capital (mergers, contribution, and acquisitions of business branches). A combination of this type does not translate into an investment relationship similar to that between a parent company and a subsidiary and therefore, in this case, accounting standard IFRS 3 also applies in the acquirer's separate financial statements.

Business combinations are recorded using the acquisition method, based on which the identifiable assets acquired, the identifiable liabilities assumed on, including potential liabilities, must be recognized to their respective fair value on the acquisition date.

The excess consideration transferred with respect to the fair value of the identifiable net assets is recognized as goodwill and is allocated, on the acquisition date, to the individual cash generating units, or to the groups of cash generating units which should benefit from the synergies of the combination, regardless of the fact that other assets or liabilities of the acquiree are assigned to said units or groupings of units.

If the consideration of the transfer is less than the fair value of the identifiable net assets, the difference is immediately recognized in the income statement as revenue under item “Other operating income”, after having made a new measurement to ascertain the correct identification process for all the assets acquired and liabilities assumed.

The consideration transferred in a company consolidation is equal to the fair value, on the acquisition date, of the assets disposed, of the liabilities incurred, and of the capital instruments issued by the acquirer in exchange for obtaining control over the acquiree. The consideration that the acquirer transfers in exchange for the acquiree includes any assets and liabilities resulting from an agreement on the potential consideration, to be recognized on the acquisition date based on fair value. Modifications may be made to the consideration transferred if they derive from additional information on facts and circumstances that existed on the acquisition date and are recognizable within the measurement period of the business combination (that is within twelve months from the date of the acquisition, as shall be specified further on). Every other change deriving from events or circumstances subsequent to the acquisition, such as, for example, that recognized for the seller associated with the attainment of specific performance income, must be recognized in the income statement.

The identification of the fair value of assets and of liabilities must be definitively consummated within a maximum term of twelve months from the acquisition date (measurement period).

The costs related to the acquisition, which include brokerage, legal, accounting, and professional consulting fees, general administrative costs, including those for maintaining an acquisitions office, are recorded in the income statement when incurred, except for the costs to issue equity securities and debt securities which are recognized based on the instructions of IAS 32 and IAS 39.

The transactions conducted for the purpose of company reorganization, between two or more companies or business activities belonging to the same group are not considered business combinations. International accounting standards do not in fact regulate transactions under common control, recorded at the acquiree's going concern values in the acquirer's financial statements, whenever they do not exhibit a significant influence on future cash flows. This in conformity with the provisions of IAS 8 par. 10, that requires, in the absence of a specific standard, the use of one's own judgment in applying an accounting standard to provide relevant, reliable, prudent disclosure that reflects the economic substance of the transaction.

Method for the determining the fair value of financial instruments

Fair value is the amount at which an asset (or a liability) may be exchanged in a transaction between independent counterparties possessing a reasonable degree of knowledge of market conditions and of the material facts associated with the subject matter of the trading.

Fair value is the price that would be paid in an ordinary transaction, i.e. in a transaction that involves market participants who have the will to trade, therefore precluding forced-type transactions.

The determination of the financial instrument's fair value is based on the going concern assumption for the bank., i.e. in the presumption that the bank will be fully operational and will neither liquidate nor appreciably reduce its trading operations nor will it conclude transactions under unfavourable terms. *Fair value* also reflects the credit rating of the instrument, in so far that it incorporates the counterparty risk.

Financial assets and liabilities held for trading, Financial assets carried at fair value, Financial investments available for sale

For these financial instruments, fair value is determined:

- through the use of prices acquired from the financial markets, in case of instruments listed in active markets;
- through the use of internal valuation models, for the other financial instruments.

On the basis of this distinction, the classification of fair value from an IFRS perspective, carried out in accordance with the principles presented below, is defined below:

1. *Level 1* - Instruments are listed on markets deemed to be active. The definition of an active market shall be provided further on (mark-to-market);
2. *Level 2* - The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of a valuation model (Mark-to-Model) is therefore required. For classification in Level 2, it's necessary that all the model input data that have a substantial effect on the overall instrument valuation can be obtained or deduced from the market and that said input data are representative of all the risk factors that influence the valuation of the instrument itself (interest rates, foreign exchange rates, credit spread, market volatility, etc.). The input data may refer to the instrument itself or also, if absent, to instruments deemed to be comparable (“comparable approach”). For specific types of instruments (for ex: shares) approaches such as the relevant transactions recently conducted on the instrument itself or on similar products are also included in the comparable approach method;

3. *Level 3* - The instruments are not listed, or are listed on markets deemed to be inactive: the adoption of a valuation model (Mark-to-Model) is therefore required"). For classification in Level 3, it's necessary that at least one of the model input data having a substantial effect on the overall valuation of the instrument cannot be obtained or deduced from the market, but is subject to estimation by the valuator (for ex: application of future cash flow estimation methods, of repayment plans, or of correlations between underlying assets of options or structured products).

The hierarchy presented above is aligned with the amendments of IFRS 7 "Financial Instruments: Disclosures", approved with EC Regulation no. 1165 of 27 November 2009, which require that disclosures be provided on the triple level of fair value, as described in the subsequent section "A. 3 – Information on Fair value".

Mark to Market

In determining fair value, the bank utilizes, whenever available, information based on market data obtained from independent sources, being considered the best evidence of fair value. In this case, fair value is the market price of the financial instrument itself subject to valuation - that is without changes or recompositions of the instrument itself - deducible from the trade prices expressed by an active market. A market is considered active whenever the trade prices reflect the normal market transactions, are properly and readily available through Stock Exchanges, listing services, brokers, and if said prices represent the actual and regular market transactions.

The following are normally considered active markets:

- the regulated markets of securities and derivatives, with the exception of the "Luxemburg" market;
- organized trading systems;
- certain OTC electronic trading circuits (for ex. Bloomberg), whenever specific conditions exist based on the presence of a certain number of contributors with executable proposals and characterized by bid - ask spreads i.e. from the difference between the price at which the counterparty pledges to sell the securities (ask price) and the price at which it pledges to buy them (bid - ask) - contained within a particular tolerance threshold;
- the secondary market for mutual investment fund units (UCITS), expressed by the official NAV (Net Asset Value), based on which the issuing Asset Management Company must proceed to liquidated the shares. This NAV may be accordingly corrected to make allowance for the poor marketability of the fund, i.e. of the time interval elapsing between the date of the reimbursement request and the date of the actual repayment, as well as to take into account any back-end fees.

Mark to Model

In case of the absence of market prices directly observable on markets considered to be active, it is necessary to resort to valuation techniques that maximizes the use of information available on the market, based on the following valuation approaches:

1. *Comparable approach:* in this case, the instrument's fair value is inferred from the prices observed on recent transactions which took place on similar instruments in active markets, duly adjusted to make allowance for differences in the instruments and in the market conditions;
2. *Valuation Model:* in the absence of observable transaction prices for the instrument subject to valuation or for similar instruments, a valuation model must be adopted; this model must be of proven reliability in estimating hypothetical "operational" prices and therefore must to be widely accepted by market participants.

In particular:

- Debt securities are valued based on the expected cash flow time-discounting method, duly corrected to make allowance for the issuer risk;
- Derivative contracts are valued based on a multiplicity of models, as a function of the input factors (interest rate risk, volatility, exchange rate risk, price risk, etc.) which influence its corresponding valuation;
- Unlisted equity securities are valued with reference to direct transactions on the securities or on similar securities observed in an appropriate interval with respect to valuation date, with the market multiples method for comparable companies and subordinately to financial, income, and equity valuation methods.

Financial liabilities carried at fair value and determination of the bank's own creditworthiness

The "Financial liabilities carried at fair value" include the liabilities issued by the bank, for which the Fair Value Option was adopted. In particular, the fair value option perimeter regards the following types of issues:

- flat rate, plain vanilla and step-up or floating rate bond loans issues;
- structured bond loan issues whose pay off is related to interest rate structures, to inflation rates, or similar indexes.

In these cases, the adoption of the fair value option allows the resolution of the accounting "mismatching" that would have otherwise occurred if the bonds issue was valued at amortized cost and the derivative at fair value.

Unlike hedge accounting, the accounting rules of which require that only the changes in fair value attributable to the risk be recognized for the hedged instrument, the fair value option implies the recognition of all the changes of fair value, regardless of the risk factor that generated them, including the issuer's credit risk.

In particular, in determining the fair value, changes to the banks own credit rating that occurred after the issue date are not considered.

Due from and to Banks and Customers, Outstanding securities, Financial assets held to maturity

For the other securities recorded in the financial statements at the amortized cost, and classified essentially among debt relationships with banks or customers, among outstanding securities, or among financial assets held to maturity, a fair value determined for disclosure purposes in the notes to the accounts. In particular:

- for non-performing medium-long term loans (bad debts and watchlist loans), the fair value is determined discounting the contractual flows, net of expected loss based on a risk-free market rate. For performing medium-long term loans, the fair value is determined in accordance with a risk aversion approach: the time-discounting is conducted on the expected cash flows, duly adjusted for expected losses, based on a risk-free market rate, plus a component deemed to represent the risk aversion to make allowance for other factors in relation to the expected loss;
- for on-demand assets and liabilities or having short-term or indeterminate maturity, the carrying value is considered to be a good approximation of the fair value;
- for bond loan issues, measured in the financial statements at amortized cost, the valuation is performed by discounting the bond's cash flows based on the reference interest rate curve, duly corrected to make allowance for the change of the bank's credit rating, wherever considered a relevant factor;
- for the debt securities classified in the "Financial assets held to maturity" portfolio or "due from banks or customers", including after portfolio reclassifications, the fair value was determined through the use of prices conferred on active markets or through the use of valuation models, as described previously for financial assets and liabilities recorded in the financial statements at fair value.

Methods for the determination of amortized cost

The amortized cost of a financial asset or liability is the value at which the financial asset or liability was measured upon initial recognition net of reimbursements of capital, increased or decreased by overall amortization, calculated using the effective interest method, of the differences between the initial value and the value upon expiration, net of any impairment loss.

The effective interest rate is that rate which at which the present value of a financial asset or liability is equal to at discounted contractual flow of the future money payments or those received until maturity or at next date for the recalculation of the price. For the present value calculation, the effective interest rate is applied to the flow of the future collections or payments throughout the entire useful life of the financial asset or liability - or for a shorter period in the presence of certain conditions (for example revision of market rates).

Subsequent to initial recognition, the amortized cost allows revenues and expenses to be allocated to increase or decrease or the instrument value throughout its entire expected live via the amortization process. The measurement of amortized cost differs depending on whether the financial assets/liabilities subject to valuation are at a flat or floating rate and – in the latter case – depending on whether or not the rate variability is known beforehand. For the flat rate instruments or with flat rates for set period, the future cash flows are quantified based on the known interest rate (sole or variable) during the life of the loan facility. For the floating rate financial assets/liabilities whose variability is not known beforehand (for example because it is linked to an index), the cash flows are determined based on the last rate known. The repayment plan and the effective rate of return over the entire useful life of the instrument, i.e. until the maturity date, are recalculated on each interest adjustment date.

The adjustment is recognized as cost or income in the income statement.

The amortized cost valuation is performed for the loans, the financial assets held to maturity, for the debts, and outstanding securities.

The financial assets and liabilities traded under market conditions are initially recognized at their fair value, which normally corresponds to the amount allocated or paid including, the directly imputable transaction costs and fees for the instruments valued as at amortized cost.

The internal or external marginal costs and income attributable to the issue, to the acquisition or to the disposal of a financial instrument which cannot be charged back to the customer are considered transaction costs. These fees, which must be directly imputed to the individual financial asset or liability, influence the actual originary yield and render the effective interest rate associated with the transaction different from the contractual interest rate. Excluded are costs/income indistinctly relevant to more than one transaction and the components related to events that can occur during the life of the financial instrument, but that are not certain at the time of the initial definition, such as for example: fees for retrocession, for non-use, for early termination.

The amortized cost valuation criteria does not apply to hedged financial assets/liabilities that anticipate changes in the recognition of the fair value relative to the hedged risk in the income statement (with regards to the hedged risk). The financial instrument is however again valued at the amortized cost in case of termination of the hedge, when changes in fair value previously recognized are amortized, calculating a new effective interest rate with a yield that takes into consideration the value of the loan having adjusted the fair value of the hedged portion, until the originally scheduled hedge maturity- Furthermore, as already mentioned in the paragraph regarding the valuation criteria of the receivables and payables and outstanding securities, the valuation of the amortized cost does not apply for the financial assets/liabilities whose short duration entails a negligible time-discounting effect or for loans without a defined maturity or good till cancelled.

Method for determining the impairment losses of financial assets

On every balance sheet date, all financial assets, except those carried at fair value recognized in the income statement, are subject to an impairment test to verify the existence of objective evidence of impairment that can imply that the carrying value of assets themselves is not entirely recoverable.

Impairment losses exist if there is objective evidence of a reduction of the future cash flows, compared with those originally estimated, subsequent to specific events. The loss must be reliably quantifiable and be correlated with actual events, not merely expected events.

In particular, the objective evidence of impairment loss of an asset or a group of financial assets can also be attributed to the following negative events.:

- significant financial difficulties of the issuer or debtor;
- breach of contract, such as a material breach or a payment default on interest or capital;
- the granting, to the at beneficiary, of a facility that the bank had taken into consideration predominantly for economic or legal reasons relative to the financial difficulties thereof and that it otherwise would not have authorized;
- the probability that the debtor may enter in bankruptcy proceedings or other financial reorganizations procedures;
- the loss of an active market for the financial asset under discussion due to financial difficulties of the issuer itself. However the disappearance of an active market due to the fact that the company's instruments are no longer publicly traded is not evidence of a reduction of fair value;
- events that indicate an appreciable reduction in issuer's future cash flows (in this case, the general conditions of the local or national economy of reference in which the Issuer operates come into play).

Furthermore, for an equity instrument investment, objective evidence of impairment loss exists in correspondence with the following additional negative events:

- significant changes having a negative impact in the technological, economic or regulatory environment in which the issuer operates, so as to indicate that the investment therein cannot be recovered;
- an extended or significant decrease in fair value below the acquisition cost.

Impairment loss valued on an analytical basis for the financial assets that present specific evidence of impairment losses and collectively, for financial assets for which is an analytic valuation is not required. or for which the analytic valuation did not result in a write-down. The collective valuation is based on the identification of homogeneous risk categories of financial assets with reference to the debtor's characteristics, to the economic sector, to the geographical area, in the presence of any guarantees and other relevant factors.

Whenever an objective impairment loss is observed subsequent to one or more events that occurred after the initial recognition of the assets, the impairment must be calculated, according to rules that are different for the financial instruments valued at amortized cost or for assets carried at fair value, imputing the changes to shareholders' equity.

With reference to the loans to customers and banks, refer to that already stated in the part on loans.

With reference to the available-for-sale assets, the process for recognizing possible impairment involves verifying the presence of impairment indicators and determining any write-downs.

The amount of the impairment is determined with reference to the financial asset's fair value.

A.3. INFORMATION ON FAIR VALUE

A.3.1. Transfers between portfolios

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

On 15 October 2008, the European Commission approved Regulation no. 1004 with which the changed to IAS 39 were adopted as concerns the reclassification of the financial instruments and IFRS 7 as concern the relevant disclosure requirements.

Based on this change, under specific conditions, financial instruments recorded at the time of purchase within the “Financial assets held for trading” category or the “Financial assets available for sale” category may now be reclassified to another accounting category as described in detail "Part A. 2." (to which the reader is referred for further information).

Based on the cited regulatory changes, in October 2008 a nominal 83.7 million of debt securities and unlisted UCITS units, held for trading, having a counter-value in the financial statements of 144.8 million, were reclassified as financial instruments available-for-sale, and a nominal 13 million of debt securities held for trading corresponding to a book value of 11.4 million were reclassified as financial instruments held to maturity.

This reclassification was expedient in consideration of the crisis characterizing world financial markets, which would not have allowed the reasonable pursuit of the goals which had justified the financial instruments being classified as a financial asset held for trading, forcing, in fact, its retention in the predictable future or until maturity. As allowed by the change of IAS 39, in virtue of the exceptional situation, the transfer was conducted essentially based on the prices as at 1 July 2008, having resolved upon the reclassification before 1 November 2008.

Furthermore, in accordance with the cited regulations, effective as of 8 November 2011 unlisted financial assets not held by the bank for trading, with a par value of 48.3 million corresponding to a book value of 42.5 million were reclassified as loans, taking into consideration that the state of uncertainty that has characterized financial markets during last quarter of the financial year would not have permitted the reasonable pursuit of the management objectives that had justified the recording of the financial instruments as of financial assets held for trading, entailing in fact, the need to classify them as loans. As anticipated by IAS 39, the transfer was essentially conducted based on the prices as at 7 November 2011.

An illustration of the residual book value as at 31 December 2011 and the change that occurred in the financial year are shown below.

(thousands of Euro)

Type of financial instrument	Source Portfolio	Destination Portfolio	Book Value as at 31/12/2011	Fair value as at 31/12/2011	Income components in the absence of transfers (before tax)		Income components entered in the year (before tax)	
					Valuation	Other	Valuation	Other
Debt securities	HFT	AFS	17,351	17,351	(919)	640	(813)	534
UCITS units	HFT	AFS	31,422	31,422	(2,203)	54	(2,203)	55
Debt securities	HFT	HTM	3,693	3,235	(183)	170	-	343
Debt securities	HFT	LRO	42,114	41,003	(2,325)	212	-	513

The variation of the reclassified securities portfolio, in addition to the physiological movement regarding the reimbursement upon expiration or the prepayment, is mainly to be attributed to certain security sales transaction of corporate issuers; the evolution of the markets recorded during 2011 in fact lead to the reconsideration of the valuations made in the 2008 financial year, rendering the investment disposal procedure advisable.

The overall amount of securities reimbursed or sold during 2011 amount to 22.4 million in terms of par value, the relative effect accredited in the income statement is positive by 290.6 thousand.

The book value of the debt securities as at 31 December 2011 amounts to 63.5 million and their fair value to 61.6 million.

In particular, the securities reclassified during 2011 refer entirely to plain vanilla bonds (i.e. only subject to the rate risk and counterparty risk) issued by Italian banks, with maturity dates not extending beyond 2013.

The cumulative effect as at 31 December 2011 resulting from the reclassifications is positive by 1.6 million, as observed by the difference between the “Book Value as at 31/12/2011” column and “Fair value as at 31/12/2011”).

Had the Bank not exercised its right to reclassify the above-mentioned instruments, the following income items would have been recognized in the financial year:

- net capital loss as an effect of the adjustments to fair value of 5.6 million;
- net capital gains from disposals of 1.1 million;

Furthermore, the reclassification entailed the recognition of the valuation components in the amount of 3.0 million and net interest revenues consequential to the application of amortized cost to the reclassified assets in the amount of 1.4 million.

Finally, it is noted that subsequent reclassification, the income results as at 31 December 2011 are 5,999 thousand greater than what would have been reported in absence of the reclassifications.

A.3.1.2. Reclassified financial assets: effects on comprehensive income before transfer

In the financial year in which the reclassification is made IFRS 7 requires that the effects on comprehensive income be provided before transfer.

(thousands of Euro)

Type of operation	Source Portfolio	Destination Portfolio	Capital gains/losses in the income statement - (before taxes)		Capital gains/losses in shareholders’ equity (before taxes)	
			31/12/2011	31/12/2010	31/12/2011	31/12/2010
Debt securities	HFT	LRO	(1,515)	-	-	-

With reference to the reclassification carried out in 2011, had the Bank not exercised its option to reclassify the financial assets, income components valued at Euro 2.3 million, determined predominantly by the changes in the fair value of the securities and 246 thousand of positive income components relative to realized gains would have been recognized in the financial year. Furthermore, the non reclassification would not have entailed the recognition of Euro 513 thousand in other positive revenue components in the financial year, predominantly associated with the release of the amortized cost of the reclassified securities.

A.3.1.3. The transfer of financial assets held for trading

For the justifications of the reclassification, refer to previous paragraph A.3.1.1.

Furthermore, it must be noted that on the occasion of the reclassification conducted at the time, the IABS had explicitly considered the impairment of the world financial markets observed in the third quarter of 2008 to be an example of a “rare circumstance”, as publicized with its press release of 13 October 2008.

A.3.1.4. Effective interest rate and excepted cash flows from reclassified assets

As at 31 December 2011, the effective interest rate of the reclassified debt securities, weighted for the quantities in position, is equal to 6.3%. For these securities, the estimated cash flows of capital amounts to 43.2 million; the difference compared to the net book value of accrued income, equal to 1.1 million, will be recorded in the interest margin, as a consequence of the amortized cost, in addition to the cash flows of interest contractually anticipated. In particular, it is noted that recovery of the entire face value of the securities is expected.

The total interest recorded in the 2011 financial year amounts to 415.6 thousands Euro, 159.3 thousand of which is the portion represented by greater net interest revenues deriving from the application of the amortized cost.

A.3.2. Fair Value hierarchy

A.3.2.1. Accounting Portfolios: breakdown by fair value levels

The increasing complexity of the financial instruments and the turbulences that characterize the financial markets have increasingly focused attention on the need to provide a complete and transparent disclosure on the method for determining the *fair value*, in both qualitative and quantitative terms.

For this reason, the disclosure required by the IFRS 7, approved with EC. Reg. no. 1165 of 27 November 2009, for the financial asset and liability portfolios subject to measurement at fair value, based on the fair value hierarchy is provided here below.

(thousands of Euro)		**31/12/2011**			**31/12/2010**	
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	40,091	135,489	18,160	88,049	190,662	18,204
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	52,024	110,249	15,917	18	66,252	20,408
4. Hedges	-	-	-	-	-	-
Total	**92,115**	**245,738**	**34,077**	**88,067**	**256,914**	**38,612**
1. Financial liabilities held for trading	-	15,439	-	129	15,181	-
2. Financial liabilities carried at fair value	-	635,799	-	-	605,330	-
3. Hedges	-	-	-	-	-	-
Total	**-**	**651,238**	**-**	**129**	**620,511**	**-**

Financial assets

The financial instruments valued based on prices drawn from active markets (Level 1) or determined based on parameters observable in the market (Level 2) represent 96.8% of the book value of financial assets carried at fair value.

Instruments measured with significant use of parameters not observable on the market (Level 3) comprise a marginal portion, equal to 3.2%, and are represented by a limited number of illiquid securities or having complex structures, mainly from Italian bank issuers, for which the fair value has been mainly inferred from information originating from outside contributors, from sources not publicly available, classified in the financial assets held for trading as well as by equity related investments of minority shares valued based on internal models (income, equity, or mixed methods) classified in the available-for sale-financial assets. The fair value thus obtained for these instruments has been conservatively classified at level 3.

27.3 million of the financial assets held for trading consist of derivative instruments held for trading and hedges; these are Over the counter (OTC) contracts valued using valuation models that make significant use of parameters that can be observed on the market or drawn from independent sources (Level 2).

Financial liabilities

Almost all of financial liabilities held for trading are almost represented by derivatives held principally for trading, the fair value of which is obtained through valuation techniques that make significant use of observable market parameters (Level 2).

The financial liabilities measured at fair value are represented by the respective bond issues hedged by derivatives, for which was the fair value option was used. These instruments are valued using valuation models that make significant use of parameters observable on the market or drawn from independent sources.

A.3.2.2. Financial assets carried at fair value (level 3): annual changes

	FINANCIAL ASSETS			
	held for trading	**carried at fair value**	**available for sale**	**hedges**
1. Opening balance	**18,204**	**-**	**20,408**	**-**
2. Increases	**2,311**	**-**	**541**	**-**
2.1 Acquisitions	2,070	-	-	-
2.2 Profits allocated as:	54	-	325	-
2.2.1 Income Statement	54	-	-	-
- of which capital gains	54	-	-	-
2.2.2 Shareholders' Equity	**X**	**X**	325	-
2.3 Transfers from other levels	-	-	-	-
2.4 Other increases	187	-	216	-
3. Decreases	**2,355**	**-**	**5,032**	**-**
3.1 Sales	649	-	4,101	-
3.2 Reimbursements	7	-	-	-
3.3 Losses allocated to:	1,596	-	873	-
3.3.1 Income statement	1,596	-	79	-
- of which capital losses	1,596	-	-	-
3.3.2 Shareholders' equity	**X**	**X**	794	-
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	103	-	58	-
4. Closing balance	**18,160**	**-**	**15,917**	**-**

A.3.2.3. Financial liabilities carried at fair value (level 3): annual changes

As at the balance sheet date, there are no financial liabilities of level 3 carried at fair value.

A.3.3. Disclosure on the so-called "day one profit/loss"

According to I FRS 7, paragraph 28, evidence of the amount of the "Day One Profit or Loss" to be recognized in the income statement as at 31 December 2011, as well as a reconciliation with respect to the opening balance, must be provided. "Day One Profit or Loss" is understood to be the difference between the fair value upon the initial recognition of a financial instrument acquired or issued (transaction price) and the amount determined on that date using a valuation technique.

It is noted that no other matter is subject to disclosure in this section.

PART B INFORMATION ON THE BALANCE SHEET

ASSETS

Sezione 1 Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: composition

(thousands of Euro)		31/12/2011	31/12/2010
a)	Cash on Hand	35,768	41,452
b)	Demand deposits at Central Banks	-	-
Total		**35,768**	**41,452**

The item is represented by the cash on hand.

Sezione 2 Financial assets held for trading – Item 20

2.1 Financial assets held for trading: break-down by type

(thousands of Euro)	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	40,091	108,110	18,160	87,897	166,713	18,203
1.1 Structured securities	-	323	15,747	-	13,317	17,710
1.2 Other debt securities	40,091	107,787	2,413	87,897	153,396	493
2. Equities	-	-	-	-	-	-
3. UCITS units	-	35	-	-	35	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreement	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**40,091**	**108,145**	**18,160**	**87,897**	**166,748**	**18,203**
B. Derivatives						
1. Financial derivatives	-	27,344	-	152	23,915	-
1.1 held for trading	-	12,466	-	152	12,680	-
1.2/12/2011 related to the fair value option	-	14,878	-	-	11,235	-
1.3 other	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2/12/2011 related to the fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**27,344**	**-**	**152**	**23,915**	**-**
Total (A+B)	**40,091**	**135,489**	**18,160**	**88,049**	**190,663**	**18,203**

The item "Debt securities – Other debt securities" of level 1 is composed of Euro zone country government securities. The change with respect to the previous operating period is mainly attributable to the reimbursements that took place in the financial year.

The item "Debt securities – Other debt securities" of level 2 is composed of bonds issued by banks of European Union country and by capitalization contracts.

The item "Debt securities – structured securities" of level 3 includes 12.5 million of bonds issued by Italian banks, and 3.2 million of bonds issued by European Union banks.

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

(thousands of Euro)	31/12/2011	31/12/2010
A. CASH ASSETS		
1. Debt securities	**166,361**	**272,813**
a) Governments and central banks	46,611	92,918
b)Other public authorities	-	-
c)Banks	83,401	121,511
d) Other issuers	36,349	58,384
2. Equities	**-**	**-**
a) Banks	-	-
b)Other issuers:	-	-
-insurance companies	-	-
-financial companies	-	-
-non-financial companies	-	-
-others	-	-
3. UCITS units	**35**	**35**
4. Loans	**-**	**-**
a)Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total A	**166,396**	**272,848**
B. DERIVATIVES		
a) Banks		
-fair value	15,601	11,482
b) Clientele		
-fair value	11,743	12,585
Total B	**27,344**	**24,067**
Total (A+B)	**193,740**	**296,915**

2.3 Financial cash assets held for trading: annual changes

(thousands of Euro)	Debt securities	Equities	UCITS units	Loans	Total
A. Opening balance	**272,813**	**-**	**35**	**-**	**272,848**
B. Increases	**438,802**	**-**	**-**	**-**	**438,802**
B1. Acquisitions	432,918	-	-	-	432,918
B2. Positive changes in fair value	462	-	-	-	462
B3. Other changes	5,422	-	-	-	5,422
C. Decreases	**545,254**	**-**	**-**	**-**	**545,254**
C1. Sales	415,863	-	-	-	415,863
C2. Reimbursements	119,807	-	-	-	119,807
C3. Negative changes in fair value	3,671	-	-	-	3,671
C4. Transfers to other portfolios	-	-	-		
C5. Other changes	5,913	-	-	-	5,913
D. Closing balance	**166,361**	**-**	**35**	**-**	**166,396**

Sezione 3 Financial assets carried at fair value – Item 30

3.1 Financial assets carried at fair value: break-down by type

As at the balance sheet date, there are no financial assets carried at fair value.

3.2 Financial assets carried at fair value: breakdown by debtor/issuer

As at the balance sheet date, there are no financial assets carried at fair value.

3.3 Financial assets carried at fair value: annual changes

As at the balance sheet date, there are no financial assets carried at fair value.

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

4.1 Available-for-sale financial assets: break-down by type

(thousands of Euro)	31/12/2011			31/12/2010		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	52,019	51,472	5,184	-	18,241	9,650
1.1 Structured securities	-	-	2,755	-	10,634	5,679
1.2 Other debt securities	52,019	51,472	2,429	-	7,607	3,971
2. Equities	5	-	10,733	18	-	10,759
2.1/12/2011 Carried at fair value	5	-	-	18	-	56
2.2 Carried at cost	-	-	10,733	-	-	10,703
3. UCITS units	-	58,777	-	-	48,010	-
4. Loans	-	-	-	-	-	-
Total	**52,024**	**110,249**	**15,917**	**18**	**66,251**	**20,409**

The increase of the item “Debt securities – Other debt securities” level 1 can be mainly attributed to the purchase of listed Italian government securities (Treasury Credit Certificates, Pluriennial Treasury Bonds, and Zero Coupon Bonds).

The increase of the item “Debt securities – Other debt securities” of level 2 is can mainly be attributed to the purchase of bonds issued by EU area banks.

The item “equity securities” consists of securities representing the voting rights of less than 20% of the share capital of companies that do not represent a strategic investment for the Bank.

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

(thousands of Euro)	31/12/2011	31/12/2010
1. Debt securities	**108,675**	**27,892**
a) Governments and central banks	52,019	-
b) Other public authorities	-	-
c) Banks	52,568	26,428
d) Other issuers	4,088	1,464
2. Equities	**10,738**	**10,776**
a) Banks	2,677	2,689
b) Other issuers:	8,061	8,087
- insurance companies	-	-
- financial companies	40	40
- non-financial companies	8,021	8,047
- other	-	-
3. UCITS units	**58,777**	**48,010**
4. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**178,190**	**86,678**

4.3 Available-for-sale financial assets subject to micro-hedging

As at the balance sheet date, there are no available-for-sale financial assets subject to micro-hedging.

4.4 Available-for-sale financial assets: annual changes

(thousands of Euro)	Debt securities	Equities	UCITS units	Loans	Total
A. Opening balance	**27,892**	**10,776**	**48,010**	**-**	**86,678**
B. Increases	**113,649**	**-**	**15,439**	**-**	**129,088**
B1. Acquisitions	108,607	-	14,560	-	123,167
B2. Positive changes in fair value	333	-	433	-	766
B3. Write-backs	2,218	-	391	-	2,609
- Allocated to the income statement	-	X	1	-	1
- Allocated to shareholders' equity	2,218	-	390	-	2,608
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	2,491	-	55	-	2,546
C. Decreases	**32,866**	**38**	**4,672**	**-**	**37,576**
C1. Sales	27,572	26	54	-	27,652
C2. Reimbursements	-	-	20	-	20
C3. Negative changes in fair value	4,849	12	4,244	-	9,105
C4. Write-downs for impairment	293	-	354	-	647
- Allocated to the income statement	277	-	-	-	277
- Allocated to shareholders' equity	16	-	354	-	370
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	152	-	-	-	152
D. Closing balance	**108,675**	**10,738**	**58,777**	**-**	**178,190**

<u>Results of impairment test on financial assets available-for-sale</u>

With reference to the values as at 31 December 2011, an impairment test was performed to recognize any of impairment losses in the income statement, in conformity with IAS 36 and with the criteria described in "Part A – Accounting policies" of these notes to the accounts.

The test anticipates verifying the presence of impairment indicators and determining any write-downs. The impairment indicators can essentially be subdivided into two categories: indicators deriving from internal factors inherent to the company issuing the instruments subject to valuation, and hence qualitative, and external indicators deriving from the market value of the instrument (for the case of listed equity securities). The presence of the issuer's internal impairment indicator and of a trade price significantly lower than the book value for a significant period implies the recognition of impairment. When deemed necessary, the impairment test was also corroborated by specific analysis results relative to the security and at the investment.

As at 31 December 2011, the tests performed have not demonstrated impairment losses.

Sezione 5 Financial assets held to maturity – Item 50

5.1 Financial assets held to maturity: break-down by type

(thousands of Euro)	31/12/2011				31/12/2010			
	Book Value	fair value			Book Value	*fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	3,693	-	3,235	-	11,552	-	3,526	7,915
- structured	-	-	-	-	7,738	-	-	7,915
- others	3,693	-	3,235	-	3,814	-	3,526	-
2. Loans	-	-	-	-	-	-	-	-
Total	**3,693**	**-**	**3,235**	**-**	**11,552**	**-**	**3,526**	**7,915**

The item "Debt securities – other securities" consists of a corporate bond issue and of a senior class debt security relative to a securitization transaction.

Results of impairment tests for financial assets held to maturity

With reference to the values as at 31 December 2011, an impairment test was performed to recognize any of impairment losses in the income statement, based on the criteria described in "Part A – Accounting policies" of these notes to the accounts.

The impairment recognition process was conducted with the same method adopted for the instruments classified as "Financial investments available for sale".

As at 31 December 2011, the tests performed have not demonstrated impairment losses

5.2 Financial assets held to maturity: breakdown by debtor/issuer

(thousands of Euro)	31/12/2011	31/12/2010
1. Debt securities	**3,693**	**11,552**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	7,738
d) Other issuers	3,693	3,814
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public authorities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**3,693**	**11,552**

5.3 Financial assets held to maturity subject to micro-hedging

As at the balance sheet date, there are no financial assets held to maturity subject to micro-hedging.

5.4 Financial assets held to maturity: annual changes

(thousands of Euro)		Debt securities	Loans	Total
A.	**Opening balance**	**11,552**	**-**	**11,552**
B.	**Increases**	**311**	**-**	**311**
B1.	Acquisitions	-	-	-
B2.	Write-backs	-	-	-
B3.	Transfers from other portfolios	-	-	-
B4.	Other changes	311	-	311
C.	**Decreases**	**8,170**	**-**	**8,170**
C1.	Sales	-	-	-
C2.	Reimbursements	8,160	-	8,160
C3.	Value adjustments	-	-	-
C4.	Transfers to other portfolios	-	-	-
C5.	Other changes	10	-	10
D.	**Closing balance**	**3,693**	**-**	**3,693**

Sezione 6 Due from Banks - Item 60

6.1 Due from banks: break-down by type

(thousands of Euro)	31/12/2011	31/12/2010
A. Due from Central Banks	**41,748**	**25,535**
1. Fixed-term deposits	-	-
2. Compulsory reserves	41,748	25,535
3. Repurchase agreement	-	-
4. Other	-	-
B. Due from banks	**130,423**	**24,895**
1. Current accounts and demand deposits	4,807	12,956
2. Fixed-term deposits	1,000	11,939
3. Other loans	7,220	-
3.1 Repurchase agreements	-	-
3.2 Financial leasing	-	-
3.3 Other	7,220	-
4. Debt securities	117,396	-
4.1 Structured securities	-	-
4.2 Other debt securities	117,396	-
Total (book value)	**172,171**	**50,430**
Total (fair value)	***168,404***	***50,430***

The increase of the balance sheet item can mainly be attributed to the increase in “Debt securities - Other debt securities” that can be traced back to the already cited reclassification of certain debt instruments issued by Italian banks as well as to the purchase of bond issues of Italian banks.

6.2 Due from banks: assets subject to micro-hedging

As at the balance sheet date, there are no loans to banks subject to micro-hedging.

6.3 Financial leasing

As at the balance sheet date, there are no loans to banks associated with financial lease transactions.

Sezione 7 Loans to Customers - Item 70

7.1 Loans to customers: break-down by type

(thousands of Euro)	31/12/2011		31/12/2010	
	Performing	Non-performing	Performing	Non-performing
1. Current accounts	1,332,986	108,856	1,400,864	104,465
2. Repurchase agreements	-	-	345	-
3. Mortgages	2,702,725	127,291	2,471,447	131,834
4. Credit cards, personal loans, and loans on salary	53,280	180	21,592	121
5. Financial leasing	-	-	-	-
6. Factoring	-	-	-	-
7. Other transactions	453,035	19,285	364,509	17,478
8. Debt securities	-	-	-	-
8.1 Structured securities	-	-	-	-
8.2 Other debt securities	-	-	-	-
Total (book value)	**4,542,026**	**255,612**	**4,258,757**	**253,898**
Total (fair value)	**4,686,183**		**4,606,435**	

Loans disbursed paid out with the banks own funds and the portion of loans provided by public entities with related risk borne by the Bank amount to Euro 117.7 million, Euro 62.6 million of which by public entities.

7.2 Loans to customers: breakdown by debtor/issuer

(thousands of Euro)	31/12/2011		31/12/2010	
	Performing	Non-performing	Performing	Non-performing
1. Debt securities:	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-
b) Other public authorities	-	-	-	-
c) Other issuers	-	-	-	-
-non-financial companies	-	-	-	-
-financial companies	-	-	-	-
-insurance companies	-	-	-	-
-others	-	-	-	-
2. Loans to:	**4,542,026**	**255,612**	**4,258,757**	**253,898**
a) Governments	-	-	-	-
b) Other public authorities	10,508	-	6,326	-
c) Other entities	4,531,518	255,612	4,252,431	253,898
-non-financial companies	2,845,290	213,503	2,775,206	196,323
-financial companies	105,332	-	44,267	4,989
-insurance companies	85	-	61	-
-others	1,580,811	42,109	1,432,897	52,586
Total	**4,542,026**	**255,612**	**4,258,757**	**253,898**

7.3 Loans to customers: assets subject to micro-hedging

As at the balance sheet date, there are no loans to customers subject to micro-hedging.

7.4 Financial leasing

As at the balance sheet date, there are no loans resulting from financial lease transactions.

Sezione 8 Hedges – Item 80

8.1 Hedges: breakdown by hedge-type and by level

As at the balance sheet date, there are no hedges.

8.2 Hedges: breakdown by portfolios hedged and by hedge-type

As at the balance sheet date, there are no hedges.

Sezione 9 Value adjustments of financial assets subject to hedging - Item 90

9.1 Value adjustments of hedged assets: breakdown by portfolios hedged

As at the balance sheet date, there are no financial assets subject to macro-hedging.

9.2 Assets subject to macro-hedging for interest rate risk

As at the balance sheet date, there are no financial assets subject to macro-hedging for interest rate risk.

Sezione 10 Equity Investments – Item 100

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

Company Name	Registered office	% investment	Voting rights
A. 100% controlled companies			
1. Voba Invest S.r.l. in liquidation	Bolzano	100%	100%
B. Jointly controlled companies			
C. Companies subject to significant control			
1. Casa di Cura Villa S. Anna S.r.l.	Merano	35%	35%

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

Company Name	Total Assets	Total income	Profit/ Loss	Shareholders' Equity	Book Value	*Fair value*
A. 100% controlled companies						
1. Voba Invest S.r.l. in liquidation	13,577	2,635	481	308	348	X
B. Jointly controlled companies						
C. Companies subject to significant control						
1. Casa di Cura Villa S. Anna	5,060	5,373	582	2,033	516	X
	18,637	**8,008**	**1,063**	**2,341**	**864**	

The balance-sheet information regards the most recently approved financial statements, in conformity with the applicable accounting standards.

10.3 Equity investments: annual changes

(thousands of Euro)		31/12/2011	31/12/2010
A.	**Opening balance**	**516**	**4,049**
B.	**Increases**	**348**	**2,500**
B.1	Acquisitions	30	2,500
B.2	Write-backs	318	-
B.3	Revaluations	-	-
B.4	Other changes	-	-
C.	**Decreases**	**-**	**6,033**
C.1	Sales	-	4,000
C.2	Value adjustments	-	2,033
C.3	Other changes	-	-
D.	**Closing balance**	**864**	**516**
E.	**Total revaluations**	**-**	**-**
F.	**Total adjustments**	**1,715**	**2,033**

Item B. 1 "Acquisitions" includes the subscription of the capital increase of the subsidiary VOBA Invest S.r.l.

The item B. 2 "Write-backs" can be attributed to the corresponding change of shareholders' equity recorded by the subsidiary VOBA Invest S.r.l. in the financial year.

Results of impairment tests on equity investments

As described in the "Part A – Accounting Policies", the equity investments were subject to impairment testing to evaluate the recuperability of the book value.

In identifying potential signs of impairment, particular attention was given to the analysis of the final economic results after the date when control was acquired, as well as the prospective future profitability.

To quantify the impairment losses, the carrying value of the equity investment was compared with its recoverable value, based on the estimation of the cash flows that can be obtained from it. Based on IAS 36, the recoverable value is represented by the greater of the *fair value* net of selling costs and the value in use.

Based on that above, the impairment test on the securities as at 31 December 2011 did not result in the need to make write-downs.

10.4 Commitments in reference to investments in subsidiary companies

As at the balance sheet date, as in the previous financial years, there are no commitments in reference to investments in subsidiary companies

10.5 Commitments in reference to investments in jointly-controlled companies

As at the balance sheet date, as in the previous financial years, there are no commitments in reference to investments in jointly-controlled companies.

10.6 Commitments in reference to investments in companies subject to significant control

As at the balance sheet date, as in the previous financial years, there are no commitments in reference to investments in companies subject to significant control

Sezione 11 Tangible assets – Item 110

11.1 Tangible assets: breakdown of assets carried at cost

(thousands of Euro)	31/12/2011	31/12/2010
A. Assets for business use		
1.1 bank-owned	**112,498**	**118,452**
a) land	34,440	34,440
b) buildings	72,464	74,783
c) movable assets	4,450	6,400
d) electronic systems	442	956
e) other	702	1,873
1.2 acquired in financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) movable assets	-	-
d) electronic systems	-	-
e) other	-	-
Total A	**112,498**	**118,452**
B. Assets held for investment		
2.1 bank-owned	**-**	**-**
a) land	-	-
b) buildings	-	-
2.2 acquired in financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
Total B	**-**	**-**
Total A+B	**112,498**	**118,452**

11.2 Tangible assets: breakdown of assets carried at fair value or revaluated

As at the balance sheet date, there are no tangible assets carried at fair value or revaluated.

11.3 Tangible assets for business use: annual changes

(thousands of Euro)	Land	Buildings	Movable assets	Electronic systems	Other	Total
A. Gross opening balance	**34,440**	**103,440**	**52,127**	**20,946**	**6,222**	**217,175**
A.1 Net total impairment	-	28,657	45,727	19,990	4,349	98,723
A.2 Net opening balance	**34,440**	**74,783**	**6,400**	**956**	**1,873**	**118,452**
B. Increases:	**-**	**539**	**1,475**	**432**	**-**	**2,446**
B.1 Acquisitions	-	539	1,421	432	-	2,392
B.2 Expenditure for capitalized improvements	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value record in:	-	-	-	-	-	-
a) shareholders’ equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Transfers from properties held as investment	-	-	-	-	-	-
B.7 Other changes	-	-	54	-	-	54
C. Decreases	**-**	**2,858**	**3,425**	**946**	**1,171**	**8,400**
C.1 Sales	-	-	54	-	-	54
C.2 Depreciation	-	2,858	3,371	946	1,171	8,346
C.3 Impairment charged to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.4 Negative changes in fair value charged to:	-	-	-	-	-	-
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Transfers to:	-	-	-	-	-	-
a) tangible assets held for investment	-	-	-	-	-	-
b) assets held for disposal	-	-	-	-	-	-
C.7 Other changes	-	-	-	-	-	-
D. Net closing balance	**34,440**	**72,464**	**4,450**	**442**	**702**	**112,498**
D.1 Net total impairment	-	31,515	48,648	20,936	3,133	104,232
D.2 Gross closing balance	**34,440**	**103,979**	**53,098**	**21,378**	**3,835**	**216,730**
E. Value at cost	-	-	-	-	-	-

11.4 Tangible assets held for investment: annual changes

As at the balance sheet date, as in the previous financial year, there are no tangible assets held for investment.

11.5 Commitments for the acquisition of tangible assets (IAS 16/74.c)

As at the balance sheet date, as in the previous financial years, there are no commitments for the purchase of tangible assets

Sezione 12 Intangible assets – Item 120

12.1 Intangible assets: breakdown by type of asset

(thousands of Euro)		31/12/2011		31/12/2010	
		Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A. 1	Goodwill	X	40,392	X	40,392
A. 2	Other intangible assets	4,081	-	4,731	-
A. 2.1	Assets carried at cost:	4,081	-	4,731	-
	a) Internally generated intangible assets	-	-	-	-
	b) Other assets	4,081	-	4,731	-
A. 2.2	Assets carried at fair value:	-	-	-	-
	a) Internally generated intangible assets	-	-	-	-
	b) Other assets	-	-	-	-
Total		**4,081**	**40,392**	**4,731**	**40,392**

As at the balance sheet date, the item "goodwill" corresponds to the goodwill recognized subsequent to acquisition, on 25 February 2008, of the Intesa Sanpaolo group business unit composed of 6 bank branches in the province of Venice.

Intangible assets: Impairment testing

As described in "Part A – Accounting Policies", the intangible assets were subject to impairment testing to evaluate the recuperability of the book value.

In accordance with paragraph 66 of IAS 36, if there is any indication that an asset may have suffered an impairment loss, the recoverable amount must be estimated for the individual asset. If it is not possible to estimate the recoverable value of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined.

With specific reference to goodwill, paragraph 80 specifies that at the end of the impairment test, goodwill acquired in a company consolidation must, from the acquisition date, be allocated to each of the acquiree's cash-generating units, or groups of cash generating units, which may benefit from the synergies of the combination, regardless of whether other assets or liabilities of the company acquired are assigned to said unit or groups of units. Each unit or group of units to which goodwill is thus allocated must:

a. represent the minimum level within the entity at which goodwill is monitored for the internal management-control purposes; and
b. must not be greater than an operational segment determined in accordance with IFRS 8 Operating Segments.

For the purpose of identifying the cash flow generating units to which the assets to undergo impairment test are to be allocated, the units potentially identified must generate cash inflows largely independent from those deriving from other units potentially identified.

The impairment test relative to intangible assets with indefinite life was conducted with the same methods utilized in the previous financial year, making reference to the CGU (cash generating unit) relative to the Venice Office.

In order to identify the recoverable value of the cash-generating unit to be compared with the relative book value, the appropriate valuations were made, making allowance for the following methods/assumptions:

- the 2010-2014 Business Plan of the Venice Office was used, considering a plan time horizon of 5 years. The assumed growth estimates were determined consistently with what the Bank has been able to express during the course of the years and taking account the current situation of market uncertainty.

- the discounted cash-flow method (EBITDA) was applied. A nil growth rate has been assumed conservatively beyond the period covered by the business plan;
- the discount rate was set equal to the Weighted Average Cost of Capital for the Bank gross of tax (2.73%), considering the average value for 2011 of the 10-year IRS rate increased by a premium for risk of 5% as cost of own equity.

The value in use has been calculated with this model and given that the result is higher than the book value of the CGU, no fair value calculation was made.

The sensitivity analysis was conducted doubling the value of the weighted average cost of capital and reducing the estimated future cash flows by 25%.

Based on the aforementioned comparison as at 31 December 2011, it was found that there was no need to conduct the impairment test because the recoverable values of the CGUs (fair value or value in use) were at a higher level that the book values.

12.2 Intangible assets: annual changes

(thousands of Euro)	**Goodwill**	**Other intangible assets: generated internally**		**Other intangible assets: other**		**Total**
		FIN	**INDEF**	**FIN**	**INDEF**	
A. Gross opening balance	**40,392**	**-**	**-**	**7,329**	**-**	**47,721**
A.1 Net total impairment	-	-	-	2,598	-	2,598
A.2 Net opening balance	**40,392**	**-**	**-**	**4,731**	**-**	**45,123**
B. Increases	**-**	**-**	**-**	**775**	**-**	**775**
B.1 Acquisitions	-	-	-	775	-	775
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	**-**	**-**	**-**	**1,425**	**-**	**1,425**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments		-	-	1,425	-	1,425
- Depreciation and amortization	X	-	-	1,425	-	1,425
- 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 held for sale	-	-	-	-	-	-
C.5 Negative exchange differences	-	-	-	-	-	-
C.6 Other changes	-	-	-	-	-	-
D. Net closing balance	**40,392**	**-**	**-**	**4,081**	**-**	**44,473**
D.1 Total net value adjustments	-	-	-	3,237	-	3,237
E. Gross closing balance	**40,392**	**-**	**-**	**7,318**	**-**	**47,710**
F. Valuation at cost	-	-	-	-	-	-

Key
FIN. = finite life
INDEF. = indefinite life

12.3 Other Information

As at the balance sheet date, as in the previous financial year, no commitments are reported in relation to intangible assets.

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

13.1 Deferred tax assets: breakdown

IRES (Corporate Income Tax) *(thousands of Euro)*	31/12/2011 amount of temporary differences	31/12/2011 tax effect	31/12/2010 amount of temporary differences	31/12/2010 tax effect
- Write-down of loans	46,325	12,739	37,347	10,270
- Provisions for risks and charges	1,685	463	997	274
- Administrative expenses	-	-	16	5
- Revaluation of fixtures and fittings (Law 266, 23/12/05)	248	68	366	101
- Valuation of AFS securities (*)	9,093	2,501	2,609	717
- Staff severance indemnities	-	-	-	-
- Amortization of prepaid tax on pre-2008 purchases	-	-	278	77
- Amortization of prepaid tax on post-2008 purchases	3,639	1,001	3,519	968
- Other	1,146	315	1,005	276
Total	**62,136**	**17,087**	**46,137**	**12,688**

IRAP (Regional tax on productive activities) *(thousands of Euro)*	31/12/2011 amount of temporary differences	31/12/2011 tax effect	31/12/2010 amount of temporary differences	31/12/2010 tax effect
- Administrative expenses	-	-	16	1
- Revaluation of fixtures and fittings (Law 266, 23/12/05)	223	11	330	15
- Valuation of AFS securities (*)	9,093	438	2,609	124
- Other	-	-	-	-
Total	**9,316**	**449**	**2,955**	**140**

13.2 Deferred income tax liabilities: breakdown

IRES (Corporate Income Tax) *(thousands of Euro)*	31/12/2011 amount of temporary differences	31/12/2011 tax effect	31/12/2010 amount of temporary differences	31/12/2010 tax effect
- Land depreciation	2,106	579	2,106	579
- Revaluation of property to deemed cost	61,589	16,937	63,029	17,333
- Valuation of AFS securities (*)	766	211	369	101
- Goodwill amortization	10,057	2,766	7,890	2,170
- Other	-	-	-	-
Total	**74,518**	**20,493**	**73,394**	**20,183**

IRAP (Regional tax on productive activities) *(thousands of Euro)*	31/12/2011 amount of temporary differences	31/12/2011 tax effect	31/12/2010 amount of temporary differences	31/12/2010 tax effect
- Land depreciation	2,106	101	2,106	100
- Revaluation of property to deemed cost	61,589	2,970	63,029	2,992
- Valuation of AFS securities (*)	766	37	369	18
- Goodwill amortization	10,057	485	7,890	375
- Other	-	-	-	-
Total	**74,518**	**3,593**	**73,394**	**3,485**

The valuation of the probability of the recovery of deferred tax assets for the 2011 financial year was conducted based on the multiyear plan, supplemented, for 2012, by the estimate of expected taxable revenue deduced from the 2012 budget.

The portion of deferred tax assets for IRES (Corporate Income Tax) referring to deductible temporary differences in the financial years after 2011 are deemed to be recoverable both in light of what may be deduced from the prospective income presented by the plan and by the budget, and in relation to the existence of several diverse opportunities for actions useful to increase the value of production within an interval compatible with the time-limits in which the differences in consideration will become deductible.

As at the balance sheet date, there are no deferred tax assets for IRAP (Regional tax on productive activities).

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

(thousands of Euro)	IRES (Corporate Income Tax)	IRAP (Regional tax on productive activities)	31/12/2011	31/12/2010
1. Initial amount			**11,987**	**14,637**
2. Increases	**3,884**	**-**	**3,884**	**990**
2.1 Prepaid taxes recognized during the year	3,884	-	3,884	990
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) write-backs	-	-	-	-
d) other	3,884	-	3,884	990
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**1,267**	**6**	**1,273**	**3,640**
3.1 Prepaid taxes cancelled during the year	1,267	6	1,273	3,640
a) reversals	1,267	6	1,273	3,572
b) write-downs for uncollectible amounts	-	-	-	-
c) change of accounting standards	-	-	-	-
d) other		-	-	68
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**14,598**	**11,987**

As at 31 December 2011, sub-item 2. “Increases: - d) Other” mainly includes the prepaid taxes relative to write-downs of loans by 3.1 million and to the allocations to provision for liabilities and charges in the amount of 0.3 million.

Sub-item 3.1 “Prepaid taxes cancelled for the year – a) reversals” includes 0.7 million for the recording of the accruing portion the deferred taxes receivable relative to the write-downs of receivables in income statement for the financial year.

13.4 Deferred tax changes (income statement contra- entry)

(thousands of Euro)	IRES (Corporate Income Tax)	IRAP (Regional tax on productive activities)	31/12/2011	31/12/2010
1. Initial amount			**23,549**	**22,581**
2. Increases	**596**	**157**	**753**	**1,512**
2.1 Deferred taxes recognized during the year	596	157	753	1,512
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) other	596	157	753	1,512
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**396**	**68**	**464**	**544**
3.1 Deferred taxes cancelled during the year	396	68	464	544
a) reversals	396	68	464	445
b) due to change in accounting standards	-	-	-	-
c) other	-	-	-	99
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**23,838**	**23,549**

13.5 Changes to prepaid taxes (with corresponding entry under shareholders' equity)

(thousands of Euro)	IRES (Corporate Income Tax)	IRAP (Regional tax on productive activities)	31/12/2011	31/12/2010
1. Initial amount			**841**	**1,044**
2. Increases	**1,783**	**315**	**2,098**	**30**
2.1 Prepaid taxes recognized during the year	1,783	315	2,098	30
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) Other	1,783	315	2,098	30
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**-**	**-**	**-**	**233**
3.1 Prepaid taxes cancelled during the year	-	-	-	233
a) Reversals	-	-	-	233
b) write-downs for uncollectible amounts	-	-	-	-
c) due to change in accounting standards	-	-	-	-
d) other		-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**2,939**	**841**

The change of the prepaid taxes against shareholders’ equity refers entirely to the change recognized in the financial year of the valuation reserves of assets available-for-sale.

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

(thousands of Euro)	IRES (Corporate Income Tax)	IRAP (Regional tax on productive activities)	31/12/2011	31/12/2010
1. Initial amount			**119**	**18**
2. Increases	**109**	**19**	**128**	**101**
2.1 Deferred taxes recognized during the year	109	19	128	101
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) Other	109	19	128	101
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**-**	**-**	**-**	**-**
3.1 Deferred taxes cancelled during the year	-	-	-	-
a) Reversals	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) Other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**247**	**119**

13.7 Other Information

Breakdown of current tax assets

(thousands of Euro)	31/12/2011	31/12/2010
1. Advance payment of IRES – IRAP – VAT taxes	11,412	19,303
2. Advance payment of stamp duty, withholding tax on interest	7,524	8,533
3. Withholding tax paid	141	166
4. Other current tax assets	-	-
Total	**19,077**	**28,002**

Breakdown of current tax liabilities

(thousands of Euro)	31/12/2011	31/12/2010
1. Liabilities for direct taxes	17,341	10,877
2. Indirect taxes	6	33
3. Withholding tax at source to be paid	-	-
4. Other current tax liabilities	170	307
Total	**17,517**	**11,217**

Sezione 14 Non-current assets and groups of assets held for disposal and associated liabilities – Item 140 under assets and Item 90 under liabilities

14.1 Non-current assets and groups of assets held for disposal: breakdown by type of asset

As at the balance sheet date, there are no non-current assets or groups of assets held for disposal:

14.2 Other Information

As at the balance sheet date, there is no other information to be reported.

14.3 Disclosure regarding the stake in companies subject to significant influence not valued at equity

As at the balance sheet date, there is no stake in companies subject to significant influence not valued at equity.

Sezione 15 Other assets – Item 150

15.1 Other assets: breakdown

(thousands of Euro)	31/12/2011	31/12/2010
1. Unprocessed transactions with branches	-	-
2. Deposits	126	137
3. Work in progress	29,367	30,285
4. Various outstanding items (items waiting final allocation)	567	920
5. Income accrued and due to be received	8,808	6,529
6. Cash items in hand	94	110
7. Accruals and deferrals not reported	569	571
8. Expenditure on third party assets	4,977	4,568
Total	**44,508**	**43,120**

LIABILITIES

Sezione 1 Due to banks – Item 10

1.1 Due to banks: break-down by type

(thousands of Euro)	31/12/2011	31/12/2010
1. Due to central banks	**430,371**	**90,071**
2. Due to banks	**239,736**	**448,667**
2.1 Current accounts and demand deposits	66,945	46,645
2.2 Fixed-term deposits	116,828	366,473
2.3 Loans	55,659	35,546
2.3.1 Reverse repurchase agreements	-	-
2.3.2 Others	55,659	35,546
2.4 Liabilities for commitments to repurchase own equity investments	-	-
2.5 Other amounts due	304	3
Total	**670,107**	**538,738**
Fair value	**670,107**	**538,738**

1.2 Detail of item 10 "due to banks": subordinated debt

As at the balance sheet date, there is no subordinated debt due to banks.

1.3 Detail of item 10 "due to banks": structured debt

As at the balance sheet date, there is no structured debt due to banks.

1.4 Due to banks subject to micro-hedging

As at the balance sheet date, there are no amounts due to banks subject to micro-hedging.

1.5 Finance lease payables

As at the balance sheet date there is no finance lease due to banks.

Sezione 2 Due to customers – Item 20

2.1 Due to customers: break-down by type

(thousands of Euro)	31/12/2011	31/12/2010
1. Current accounts and demand deposits	1,936,827	1,917,241
2. Fixed-term deposits	201,417	6,434
3. Loans	40,014	81,529
3.1 Reverse repurchase agreements	40,014	81,529
3.2 Others	-	-
4. Liabilities for commitments to repurchase own equity investments	-	-
5. Other amounts due	136,134	172,668
Total	**2,314,392**	**2,177,872**
Fair value	***2,314,392***	***2,177,872***

2.2 Detail of item 20 “Due to customers”: subordinated debt

As at the balance sheet date there is no subordinated debt due to customers.

2.3 Detail of item 20 “Due to customers”: structured debt

As at the balance sheet date, there is no structured debt due to customers.

2.4 Due to customers subject to micro-hedging

As at the balance sheet date, there is no debt due to customers subject to micro-hedging.

2.5 Finance lease payables

As at the balance sheet date, there are no debts payable to customers associated with financial lease transactions.

Sezione 3 Outstanding securities – Item 30

3.1 Outstanding securities: break-down by type

(thousands of Euro)	31/12/2011				31/12/2010			
	Book value	*Fair value*			Book value	*Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,309,055	-	1,309,055	-	1,215,537	-	1,215,537	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	1,309,055	-	1,309,055	-	1,215,537	-	1,215,537	-
2. Other securities	3,759	-	-	3,759	2,629	-	-	2,629
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Others	3,759	-	-	3,759	2,629	-	-	2,629
Total	**1,312,814**	**-**	**1,309,055**	**3,759**	**1,218,166**	**-**	**1,215,537**	**2,629**

The 270.5 million of the sub-item “1.2 Bonds – Other” refers to the issues listed at the Luxemburg Exchange within the scope of the Euro Medium-Term Notes (“EMTN”) program. During 2011, 2 placements of bonded securities were consummated on the Euromarket for a total of 175 million.

3.2 Detail of item 30 “Outstanding securities”: subordinated securities

As at the balance sheet date, there are subordinated securities outstanding.

3.3 Outstanding securities subject to micro-hedging

As at the balance sheet date, there are no outstanding securities subject to micro-hedging.

Sezione 4 Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: break-down by type

(thousands of Euro)	31/12/2011					31/12/2010				
	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 Others	-	-	-	-	X	-	-	-	-	X
Total A	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B. Derivatives										
1. Financial derivatives	-	-	15,439	-	-	-	129	15,181	-	-
1.1 Held for trading	X	-	14,831	-	X	X	129	14,812	-	X
1.2/12/2011 Related to the fair value option	X	-	608	-	X	X	-	369	-	X
1.3 Others	X	-	-	-	X	X	-	-	-	X
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Held for trading	X	-	-	-	X	X	-	-	-	X
2.2/12/2011 Related to the fair value option	X	-	-	-	X	X	-	-	-	X
2.3 Other	X	-	-	-	X	X	-	-	-	X
Total B	**X**	**-**	**15,439**	**-**	**X**	**X**	**129**	**15,181**	**-**	**X**
Total (A+B)	**X**	**-**	**15,439**	**-**	**X**	**X**	**129**	**15,181**	**-**	**X**

Key

FV	*fair value*
FV*	fair value calculated excluding value adjustments due to changed issuer credit rating since the date of issue
FCV	face value or notional value
L1	Level 1
L2	Level 2
L3	Level 3

4.2 Detail of Item 40 “Financial liabilities held for trading”: subordinated liabilities

As at the balance sheet date, as in the previous financial year, there are no subordinated financial liabilities held for sale.

4.3 Detail of Item 40 “Financial liabilities held for trading”: structured debt

As at the balance sheet date, as in the previous financial year, there are no financial liabilities relative to structured debt held for sale.

4.4 Financial liabilities for cash (excluding "technical losses") held for trading: annual changes

As at the balance sheet date, as in the previous financial year, there are no financial liabilities for cash held for sale.

Sezione 5 Financial Liabilities carried at fair value – Item 50

5.1 Financial liabilities carried at fair value: break-down by type

(thousands of Euro)	31/12/2011					31/12/2010				
	FCV	FV			FV*	FCV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	6,000	-	6,182	-	6,182	3,000	-	2,999	-	2,999
1.1 Structured	-	-	-	-	X	-	-	-	-	X
1.2 Others	6,000	-	6,182	-	X	3,000	-	2,999	-	X
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 structured	-	-	-	-	X	-	-	-	-	X
2.2 Others	-	-	-	-	X	-	-	-	-	X
3. Debt securities	613,363	-	629,617	-	629,617	590,150	-	602,331	-	602,331
3.1 structured	45,477	-	47,934	-	X	50,200	-	51,875	-	X
3.2 Others	567,886	-	581,683	-	X	539,950	-	550,456	-	X
Total	**619,363**	**-**	**635,799**	**-**	**635,799**	**593,150**	**-**	**605,330**	**-**	**605,330**

Key

FV	*fair value*
FV*	*fair value* calculated excluding value adjustments due to changed issuer credit rating since the date of issue
FCV	face value or notional value
L1	Level 1
L2	Level 2
L3	Level 3

The financial liabilities carried at fair value refer to the plain vanilla, flat rate bond issues or bond issues index-linked to equities, foreign exchange rates, inflation rates, or to interest rate structures, placed with customers and on the Euromarket and hedged via derivative instruments.

In this case, the use of the fair value option responds to the need to eliminate or significantly reduce the accounting mismatch that would occur if the bond loan issues were valued at amortized cost and the derivatives related with the fair value, as an alternative to the hedge accounting method.

5.2 Detail of item 50 "Financial liabilities carried at fair value": subordinated liabilities

As at the balance sheet date, there are no subordinate financial liabilities carried at fair value.

5.3 Financial liabilities carried at fair value: annual changes

(thousands of Euro)	Due to banks	Due to customers	Outstanding securities	Total
A. Opening balance	**2,999**	**-**	**602,331**	**605,330**
B. Increases	**3,183**	**-**	**171,079**	**174,262**
B1. Issues	3,183	-	121,227	124,410
B2. Sales	-	-	35,239	35,239
B3. Positive changes in fair value	-	-	7,929	7,929
B4. Other changes	-	-	6,684	6,684
C. Decreases	**-**	**-**	**143,793**	**143,793**
C1. Acquisitions	-	-	42,027	42,027
C2. Reimbursements	-	-	91,524	91,524
C3. Negative changes in fair value	-	-	2,786	2,786
C4. Other changes	-	-	7,456	7,456
D. Closing balance	**6,182**	**-**	**629,617**	**635,799**

Sezione 6 Hedges – Item 60

6.1 Hedges: breakdown by hedge-type and by level

As at the balance sheet date, as in previous financial year, there are no hedges.

6.2 Hedges: breakdown by portfolios hedged and by hedge-type

As at the balance sheet date, as in previous financial year, there are no hedges.

Sezione 7 Value adjustments of macro-hedged financial liabilities - Item 70

7.1 Value adjustments of hedged financial liabilities

As at the balance sheet date, as in the previous financial year, there are no macro-hedged financial liabilities.

7.2 Financial liabilities macro-hedged against interest rate risk breakdown

As at the balance sheet date, as in the previous financial year, there are no macro-hedged financial liabilities.

Sezione 8 Tax liabilities – Item 80

This Section was commented on in section 13 of the balance sheet assets.

Sezione 9 Liabilities related to assets held for disposal – Item 90

As at the balance sheet date, as in the previous financial year, there are no financial liabilities related to assets held for disposal.

Sezione 10 Other liabilities - Item 100

10.1 Other liabilities: breakdown

(thousands of Euro)	31/12/2011	31/12/2010
1. Adjustments of non-liquid items related to securities portfolios	22,429	50,217
2. Unprocessed transactions with branches	-	-
3. Amounts available to third parties (banks, suppliers etc.)	14,135	14,293
4. Amounts available to customers	14,272	12,611
5. Work in progress (money orders etc.)	3,787	4,690
6. Other items due to various creditors	5,893	7,168
7. Provisions for risks and charges for guarantees and commitments	984	1,044
8. Accruals and deferrals not reported	809	1,660
9. Withholding tax and taxes due	6,862	7,343
Total	**69,171**	**99,026**

Sezione 11 Staff severance indemnities – Item 110

11.1 Staff severance indemnities: annual changes

(thousands of Euro)	31/12/2011	31/12/2010
A. Opening balance	**17,868**	**19,987**
B. Increases	**675**	**532**
B1. Provisions during the year	675	532
B2. Other increases	-	-
C. Decreases	**1,290**	**2,651**
C1. Amounts paid	1,064	2,398
C2. Other decreases	226	253
D. Closing balance	**17,253**	**17,868**

11.2 Other Information

As described in Part A – Accounting policies, further to the supplementary pension reform, the staff severance indemnities recorded in this financial statement item pertain only to the portion accrued up until 31 December 2006.

The provision therefore does not include the portions which, as a result of the cited reform, are paid in the form of complementary pension plans or also to the Treasury fund at INPS (The National Social Security Institute). In this case, the portions of the staff severance indemnities maturing starting on 1 January 2007 form a “defined contribution plan” and are recognized among staff expenses in the sub-item “Employee termination indemnities”, based on the contributions due without the application of actuarial calculation methods, as the corresponding entry to the recognition of the balance-sheet item “Other liabilities” or cash-equivalent outflows.

The actuarial valuation of the staff severance indemnities was performed based on the “accrued benefits” method according to the Projected Unit Credit criteria governed by paragraphs 64-66 of IAS 19; it is based on the following main types of demographic, economic, and financial assumptions:

Main demographic and actuarial assumptions for the valuation of the staff severance fund	
Employee mortality rate	Survival table RG48 published by State General Accountancy.
Frequencies and sum of the staff severance indemnity advances	They were determined as a function of the distinct historical experience by service seniority. A value of 2.00% was used for the current financial year.
Disability	INPS tables distinguished by age and sex
Turnover frequencies	Determined as a function of the historical experience for the company and for similar companies, distinguished by age and sex.
Probability of retirement	Upon reaching the first retirement requirement (in accordance with the provisions of the Assicurazione Generale Obbligatoria [Compulsory General Insurance Institute] (AGO).
Annual discount rate	In conformity with the provisions of par. 78 of IAS 19, the Iboxx Eurozone Corporate AA index, in line with the duration of the benefits recognized for the Bank's employees., equal to 4.25%
Annual inflation rate	2.00%
Annual rate of increase of the staff severance indemnities	3.00%, in accordance with the provision of art. 2129 of the Italian Civil Code, it is equal to 75% of the inflation rate plus 1.5 percentage points

It is specified that demographic and actual assumptions described above are essentially in line with those used In the past financial year; it is noted that the annual discount rate used for the actuarial valuation as at 31 December 2010 was on the order of 4.35%; no variation of the average annual inflation rate and of the resulting annual staff severance indemnity.

Sezione 12 Provision For Risks And Charges - Item 120

12.1 Provisions for risks and charges: breakdown

(thousands of Euro)	31/12/2011	31/12/2010
1. Company pension funds	-	-
2. Other provisions for risks and charges	1,685	2,618
2.1 legal disputes	1,685	997
2.2 personnel charges	-	-
2.3 Others	-	1,621
Total	**1,685**	**2,618**

12.2 Provisions for risks and charges: annual changes

(thousands of Euro)	Pension funds	Other provisions	Total
A. Opening balance	**-**	**2,618**	**2,618**
B. Increases	**-**	**972**	**972**
B1. Provisions during the year	-	972	972
B2. Changes due to the elapsing of time	-	-	-
B3. Changes due to discount rate adjustments	-	-	-
B4. Other changes	-	-	-
C. Decreases	**-**	**1,905**	**1,905**
C1. Use during the year	-	1,825	1,825
C2. Changes due to discount rate adjustments	-	-	-
C3. Other changes	-	80	80
D. Closing balance	**-**	**1,685**	**1,685**

The item "C.1 Decreases – Use in the year" includes 1.6 million for the use of the provision allocated in the past financial year against the loss of the subsidiary VOBA Invest S.r.l.

12.3 Company pension funds with defined benefit plans

As at the balance sheet date, as in the previous financial year, there are no pension funds with defined benefit plans.

12.4 Provisions for risks and charges - other funds

The item "Other provisions for risks and charges", sub-item "legal disputes", equal to 1.7 million, includes the provisions for ongoing disputes including of the respective expenses.

Sezione 13 Redeemable shares – Item 140

13.1 Redeemable shares: breakdown

As at the balance sheet date, as in the previous financial year, there are no redeemable shares.

Sezione 14 Parent Bank shareholders' equity – Items 130, 150, 160, 170, 180, 190, and 200

14.1 "Share capital" and "Treasury shares": breakdown

(thousands of Euro)	31/12/2011	31/12/2010
- Number of treasury stocks and shares	34,670,319	34,670,319
- Face value	Euro 2.00	Euro 2.00

As at 31 December 2011, Banca Popolare dell'Alto Adige has no treasury shares on hand.

The share capital, as at the balance sheet date, is equal to 69.3 million and consists of no. 34,670,319 ordinary shares, with a par value of 2 Euro each. All ordinary shares outstanding are subscribed and fully paid-up. 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.

14.2 Share capital - number of shares: annual changes

(thousands of Euro)	**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 Sale of businesses	-	-
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	-	-

Note that as at the balance sheet date, there are no treasury shares held through trust companies or through a third party.

14.3 Share capital: other disclosures

As at the balance sheet date, there is no other disclosures to be reported.

14.4 Profit Reserves: other disclosures

(thousands of Euro)	**31/12/2011**	**31/12/2010**
1. Legal reserve	104,800	103,000
2. Extraordinary reserve	89,930	84,692
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	30,274	30,273
Total	**239,465**	**232,426**

In conformity with art. 2427, subsection one, no. 7 bis of the Italian Civil Code, the summary of the shareholders' equity line items is reported according to their origin and indicating the utilization and distributability options as well as their utilization in the three previous accounting years.

Type/description *(thousands of Euro)*	Amount	Utilization options	Available portion	Summary of utilization in the last three years	
				Loss cover	Other
Capital	69,341	-	-		
Share premiums	145,773	A,B,C (1)	145,773		
Profit reserves					
- Legal reserve	104,800	B (2)	-		
- Extraordinary reserve	89,930	A,B,C	89,930		
- 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 Italian Law 218/90	10,278	A,B,C (3)	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	(6,166)		(6,166)		
c) Positive AFS valuation reserve	518	(*)	-		
Capital instruments	-		-		
Retained earnings	18,515		-		
Total	**541,894**		**348,720**		

A = for FOC share capital increase

B = as loss cover

C = for distribution to shareholders

(*) this reserve is unavailable pursuant to art 6 of Italian Legislative Decree 38/2005

(1) The reserve may be distributed only for the part in excess of the amount necessary for the statutory reserve to attain one-fifth of the share capital (art. 2431 of the Italian civil code.).

(2) The reserve may be distributed or used to increase share capital only for the part that exceeds one-fifth of share capital (art. 2430, paragraph 1 of the Italian civil code.).

(3) The reserve, whenever not charged to share capital, may be reduced only in compliance with the provisions of the second and third paragraphs of art. 2445 of the Italian civil code. If the reserve to cover losses is used, profits cannot be distributed until the reserve has been replenished or reduced by a corresponding amount. The reserve may be reduced only with a resolution by the Extraordinary Shareholders' Meeting without observance of the second and third paragraphs of art. 2445 of the Italian civil code. Whensoever distributed to the shareholders, it contributes to form the taxable income of the company.

14.5 Capital instruments: breakdown and annual changes

As at the balance sheet date, there are no bank capital instruments other than ordinary shares.

14.6 Other Information

As at the balance sheet date, there is not further disclosures to be reported.

OTHER INFORMATION

1. *Guarantees issued and commitments*

(thousands of Euro)	31/12/2011	31/12/2010
1) Financial guarantees issued	32,317	28,813
a) Banks	6,105	5,855
b) Customers	26,212	22,958
2) Commercial guarantees issued	343,777	364,946
a) Banks	2,936	569
b) Customers	340,841	364,377
3) Irrevocable commitments to disburse funds	205,105	135,327
a) Banks	3,557	12,834
i) certain to be used	3,557	12,834
ii) not certain to be used	-	-
b) Customers	201,548	122,493
i) certain to be used	9,746	1,186
ii) not certain to be used	191,802	121,307
4): Commitments underlying credit derivatives protection sales	-	-
5) Assets lodged to guarantee minority interest	-	-
6) Other commitments	-	-
Total	**581,199**	**529,086**

The irrevocable commitments to disburse funds to customers in the amount of 192 million, certain to be used, refer mainly to corporate customers.

1. *Assets lodged to guarantee own liabilities and commitments*

(thousands of Euro)	31/12/2011	31/12/2010
1. Financial assets held for trading	265,010	438,812
2. Financial assets carried at fair value	-	-
3. Available-for-sale financial assets	-	-
4. Financial assets held to maturity	-	-
5. Due from banks	-	-
6. Loans to customers	-	-
7. Tangible assets	-	-

Assets established as security of own liabilities and commitments for reverse repurchase agreements deposits total 34 million, whereas the securities uses as deposit and guarantees for other transactions amount to 231 million.

Furthermore, it is noted that as at the balance sheet date, there are 655 million in shares not presented in the table being that the relevant securities, relative to transactions of self-securitization transactions, are not recorded in the balance sheet assets. 7.2 million of the above-mentioned securities are placed as guarantees to cover liabilities for reverse repurchase agreements and 647.9 million constitute the guarantee for transactions with the Central Bank in order to support any liquidity needs.

2. *Disclosure on operative leasing*

As at the balance sheet date, as in the previous financial year, there are not operative leasing assets or liabilities.

3. *Management and brokerage on behalf of third parties*

Type of service *(thousands of Euro)*	**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	**7,837,090**
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	2,258,625
1. securities issued by the Bank preparing the financial statements	1,652,500
2. other securities	606,125
b) Third party securities held on deposit (excluding assets under management): other	37,588
1. securities issued by the Bank preparing the financial statements	29,959
2. other securities	7,629
c) Third party securities deposited with third parties	2,277,796
d) Own securities deposited with third parties	3,263,081
4. Other transactions	**-**

PART C INFORMATION ON THE INCOME STATEMENT

Sezione 1 Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical form *(thousands of Euro)*	Debt securities	Loans	Other transactions	31/12/2011	31/12/2010
1. Financial assets held for trading	6,936	-	5,605	13,189	15,821
2. Available-for-sale financial assets	2,810	-	-	2,810	807
3. Financial assets held to maturity	347	-	-	347	512
4. Due from banks	698	685	-	1,383	590
5. Loans to customers	-	161,289	-	160,641	130,004
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedges	X	X	-	-	-
8. Other assets	X	X	39	39	39
Total	**10,791**	**161,974**	**5,644**	**178,409**	**147,773**

The interest income on impaired assets totalled 5.1 million, essentially unchanged with respect to 31 December 2010.

The item "Interest income on loans to customers" includes 4.2 million of interest receivable accrued in relation to the VOBA Finance S.r.l. securitization transaction for which the prerequisites for registration were met during the financial year.

The positive margins or the differentials of the derivative contracts managerially related with third parties and financial liabilities carried at fair value (the fair value option), as well as those managerially related with third parties and financial liabilities classified in the trading portfolio appear in the "Other transactions" column of the item "financial assets held for trading".

1.2 Interest income and similar income: differentials relevant to hedging transactions

During the financial year, as in the previous year, there were no differentials relevant to hedging transactions.

1.3 Interest income and similar income: other disclosures

1.3.1 Interest income on financial assets in foreign currency

(thousands of Euro)	31/12/2011	31/12/2010
a) on (foreign) currency assets	1,283	1,650

1.3.2 Interest income on finance lease transactions

During the financial year, as in the previous one, there was no interest income on finance lease transactions.

1.4 Interest expense and similar charges: breakdown

Items/Technical form *(thousands of Euro)*	Payables	Securities	Other transactions	31/12/2011	31/12/2010
1. Due to central banks	1,442	X	-	1,442	325
2. Due to banks	6,198	X	-	6,198	2,748
3. Due to customers	14,939	X	-	14,939	9,155
4. Outstanding securities	X	22,580	-	22,580	13,209
5. Financial liabilities held for trading	-	-	-	-	-
6. Financial liabilities carried at fair value	166	16,229	-	16,395	15,893
7. Other liabilities and funds	X	X	-	-	-
8. Hedges	X	X	-	-	-
Total	**22,745**	**38,809**	**-**	**61,554**	**41,330**

1.5 Interest expense and similar charges: differentials relevant to hedging transactions

During the financial year, as in the previous year, there were no differentials relevant to hedging transactions.

1.6 Interest expense and similar charges: other disclosures

1.6.1 Interest expense on liabilities in currency

(thousands of Euro)	31/12/2011	31/12/2010
a) on assets in foreign currency	955	185

1.6.2 Interest expense on liabilities for finance lease transactions

During the financial year, as in the previous one, there were no expense on finance lease transactions.

Sezione 2 Commission – Items 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts *(thousands of Euro)*		**31/12/2011**	**31/12/2010**
a)	**Guarantees issued**	**2,457**	**2,401**
b)	**Credit derivatives**	**-**	**-**
c)	**Management, brokerage and consulting services:**	**15,421**	**16,235**
	1. trading of financial instruments	178	204
	2. foreign currency transactions	437	448
	3. portfolio management	-	-
	3.1 individual	-	-
	3.2 collective	-	-
	4. custody and administration of securities	263	271
	5. depositary bank	-	-
	6. placement of securities	6,327	7,449
	7. order receipt and transmission work	1,470	1,541
	8. advisory services	-	-
	8.1 on investments	-	-
	8.1 on financial structures	-	-
	9. distribution of third-party services	6,746	6,322
	9.1 portfolio management	-	-
	9.1.1 individual	-	-
	9.1.2 collective	-	-
	9.2 insurance products	3,762	3,369
	9.3 other products	2,984	2,953
d)	**Collection and payment services**	**5,179**	**4,968**
e)	**Servicing for securitization transactions**	**-**	**-**
f)	**Factoring transaction services**	**-**	**-**
g)	**Tax collection services**	**-**	**-**
h)	**Managing multilateral trading systems**	**-**	**-**
i)	**Maintaining and managing current accounts**	**38,674**	**38,792**
j)	**Other services**	**11,936**	**9,242**
Total		**73,667**	**71,638**

2.2 Commission income: distribution channels for products and services

Channels/Amounts *(thousands of Euro)*			31/12/2011	31/12/2010
a)	**At own branches:**		**13,073**	**13,771**
	1.	portfolio management	-	-
	2.	placement of securities	6,327	7,449
	3.	third party services and products	6,746	6,322
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 *(thousands of Euro)*	31/12/2011	31/12/2010
a) Guarantees received	**16**	**11**
b) Credit derivatives	**-**	**-**
c) Management and brokerage services:	**1,769**	**822**
1. trading of financial instruments	1,434	530
2. foreign currency transactions	82	77
3. portfolio management:	-	-
3.1 own	-	-
3.2 on behalf of third parties	-	-
4. custody and administration of securities	253	215
5. placement of financial instruments	-	-
6. external supply of financial instruments, products and services	-	-
d) Collection and payment services	**354**	**391**
e) Other services	**3,221**	**3,303**
1. transmission duties for cash point card details, POS	1,984	2,101
2. transmission duties for the Bank network	527	561
3. other	710	641
Total	**5,360**	**4,527**

Sezione 3 Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Amounts	31/12/2011		31/12/2010	
(thousands of Euro)	Dividends	Income from UCITS	Dividends	Income from UCITS
A. Financial assets held for trading	-	-	-	-
B. available-for-sale financial assets	230	-	231	11
C. Financial assets carried at *fair value*	-	-	-	-
D. Equity investments	105	X	82	X
Total	**335**	**-**	**313**	**11**

Sezione 4 Net income from trading activities – Item 80

4.1 Net income from trading activities: breakdown

Transactions/ Income components *(thousands of Euro)*	Capital Gains (A)	Profit from trading (B)	Capital Losses (C)	Losses from trading (D)	Net result [(A+B) - (C+D)]
1. Financial assets held for trading	**462**	**1,276**	**(5,186)**	**(533)**	**(3,981)**
1.1 Debt securities	462	487	(5,186)	(413)	(4,650)
1.2 Equities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	-	789	-	(120)	669
2. Financial liabilities held for trading:	**-**	**-**	**-**	**-**	-
2.1 Debt securities	-	-	-	-	-
2.2 payables	-	-	-	-	-
2.3 Other	-	-	-	-	-
3. Other financial assets and liabilities: exchange differences	**X**	**X**	**X**	**X**	**-**
4. Derivatives	**212**	**11,897**	**(1,761)**	**(12,961)**	**(2,611)**
4.1 Financial derivatives:	212	11,897	(1,761)	(12,961)	(2,611)
- on loan instruments and interest rates	-	9,899	(1,761)	(10,686)	(2,548)
- on equity securities and share indices	212	1,998	-	(2,275)	(65)
- on currency and gold	X	X	X	X	2
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**674**	**13,173**	**(6,947)**	**(13,494)**	**(6,592)**

The net financial result generated in the financial year is influenced, in the amount of 4.2 million, by the negative impacts on government securities resulting from the tensions in the European markets that occurred during the financial year.

The sub-item “Financial derivatives - on debt securities and interest rates”, negative by 2.5 million, includes 0.8 million for the net negative result deriving from margins and differentials on IRSs held for trading and futures, and 1.8 million for the negative result from trading and valuation of IRSs and options on securities and rates.

Sezione 5 Net income from hedging activities – Item 90

5.1 Net income from hedging activities

During the financial year, as in the previous one, there were no differentials relevant to hedging transaction.

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

6.1 Profit/Loss from sale/repurchase: breakdown

Items/Income components	**31/12/2011**			**31/12/2010**		
(thousands of Euro)	**Profit**	**Loss**	**Net result**	**Profit**	**Loss**	**Net result**
Financial assets						
1. Due from banks	97	-	97	-	-	-
2. Loans to customers	-	-	-	-	(2,058)	(2,058)
3. Financial assets available for sale	536	(330)	206	1,422	(512)	910
3.1 Debt securities	524	(330)	194	1,012	(474)	538
3.2 Equities	12	-	12	410	(38)	372
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	6	-	6	14	-	14
Total assets	**639**	**(330)**	**309**	**1,436**	**(2,570)**	**(1,134)**
Financial liabilities						
1. Due to banks	-	-	-	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	794	(23)	771	516	(7)	509
Total Liabilities	**794**	**(23)**	**771**	**516**	**(7)**	**509**

Sezione 7 Net income from financial assets and liabilities carried at fair value – Item 110

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

Transactions/ Income components *(thousands of Euro)*	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 Equities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
2. Financial liabilities	**2,200**	**1,343**	**(7,355)**	**-**	**(3,812)**
2.1 Debt securities	2,200	1,343	(7,301)	-	(3,758)
2.2 Due to banks	-	-	(54)	-	(54)
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in foreign currency: exchange differences	X	X	X	X	-
4. Financial and credit derivatives	**4,127**	228	(104)	-	4,251
Total	**6,327**	**1,571**	**(7,459)**	**-**	**439**

The net result of the financial liabilities for debt securities refer mainly to the plain vanilla, flat rate bond issues or bond issues index-linked to equities, foreign exchange rates, inflation rates, or to interest rate structures, placed with customers and on the Euromarket and hedged via derivative instruments.

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

8.1 Net value adjustments for impairment of receivables: breakdown

Transactions/ Income components *(thousands of Euro)*	Value adjustments			Write-backs				2011	2010
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		From interest	Other write-backs	From interest	Other write-backs		
A. Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Loans	-	-	-	-	-	-	-	**-**	**-**
- Debt securities	-	-	-	-	-	-	-	**-**	**-**
B. Loans to customers	**(1,603)**	**(32,394)**	**(1,329)**	**7,227**	**8,462**	**32**	**-**	**(19,605)**	**(8,225)**
- Loans	(1,603)	(32,394)	(1,329)	7,227	8,462	32	-	**(19,605)**	**(8,225)**
- Debt securities	-	-	-	-	-	-	-	**-**	**-**
C. Total	**(1,603)**	**(32,394)**	**(1,329)**	**7,227**	**8,462**	**32**	**-**	**(19,605)**	**(8,225)**

The item “Value adjustments – specific – derecognitions” mainly refers to non-performing positions. The item “Value adjustments – specific – other” mainly contains the value adjustments on refers to non-performing and watch-list positions.

The item “Write-backs – specific – from interest” refers to write-backs on bad debts as an effect of time-discounting.

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

Transactions/ Income components *(thousands of Euro)*	Value adjustments		Write-backs		2011	2010
	Specific		Specific			
	Derecognitions	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equities	-	-	X	X	-	(84)
C. UCITS units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**-**	**-**	**-**	**-**	**(84)**

For the impairment tests, refer to section 4 "Available-for-sale financial assets" in the balance sheet assets of these notes to the accounts.

8.3 Net adjustments for impairment of financial assets held to maturity breakdown

As at the balance sheet date, there are no net adjustments for impairment of financial assets held to maturity.

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

Transactions/ Income components *(thousands of Euro)*	Value adjustments			Write-backs				2011	2010
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		From interest	Other write-backs	From interest	Other write-backs		
A. Guarantees issued	-	(560)	-	-	620	-	-	**60**	**(258)**
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**(560)**	**-**	**-**	**620**	**-**	**-**	**60**	**(258)**

Sezione 9 Administrative costs - Item 150

9.1 Personnel costs: breakdown

Type of cost/Amounts *(thousands of Euro)*	31/12/2011	31/12/2010
1) Employees	73,687	72,832
a) salaries and wages	50,004	49,743
b) social security costs	13,922	13,409
c) employee termination indemnities	-	-
d) pension costs	-	-
e) provisions to staff severance indemnities	3,923	3,778
f) provisions for pension fund and similar commitments:	-	-
- to defined contribution plans	-	-
- with defined benefits	-	-
g) payments to additional external pension funds:	2,783	2,775
- to defined contribution plans	2,783	2,775
- with defined benefits	-	-
h) costs resulting from share-based payment arrangements	-	-
i) other employee benefits	3,055	3,127
2) Other working staff	15	26
3) Directors and auditors	1,089	1,051
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	**74,791**	**73,909**

9.2 Average number of employees per category

(thousands of Euro)	31/12/2011	31/12/2010
1. **Employees**	**1,035**	**1,027**
a) Officers	28	31
b) Line managers	360	356
c) Remaining employees	647	640
2. **Other employees**	-	-
Total	**1,035**	**1,027**

The average number of employees does not include the directors and auditors. Part-time employees are considered at 50 percent, by convention.

9.3 Company pension funds with defined benefit plans: total costs

In the financial year, as in the previous year, there are no company pension funds with defined benefit plans.

9.4 Other employee benefits

Other employee benefits, whose costs are reported in the previous table 9.1 in paragraph i), mainly include 0.8 million of personnel training expenses. Also included are, cafeteria contributions, refunds for of food and accommodations of employees away on business, kilometre-based travel reimbursements, costs for insurance policies stipulated in favour of employees.

9.5 Other administrative costs: breakdown

(thousands of Euro)	31/12/2011	31/12/2010
1. Equipment and software leasing charges	1,290	1,152
2. Vehicle circulation and travel/accommodation reimbursements	1,485	1,393
3. Fees for professional services	5,136	3,885
4. Membership fees	466	384
5. SEC (consortium data processing centre) management costs	8,084	7,791
6. Donations	261	291
7. Property rental	4,725	5,004
8. Stamp duty and tax on stock exchange contracts	7,460	6,462
9. Indirect taxes	424	475
10. Insurance premiums	803	988
11. Transport	905	867
12. Security services	1,164	910
13. Electricity, heating, and condominium fees	1,592	1,581
14. Office supplies	1,112	1,125
15. Investigation and commercial information	1,403	1,378
16. Legal fees for credit collection	3,757	1,671
17. Property, furniture and plant maintenance	3,706	3,588
18. Advertising and entertainment	3,621	4,039
19. Office cleaning	1,312	1,540
20. Telephone, postal, data transmission and telex	2,429	2,829
21. Taxes and duties	1,776	1,595
22. Other costs	173	365
Total	**53,084**	**49,313**

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

10.1 Net allocations to provisions for risks and charges: breakdown

(thousands of Euro)	31/12/2011	31/12/2010
a) Provision for civil disputes, revocatory bankruptcy action and other charges	(972)	(2,093)
b) Release of provisions	80	47
Total	**(892)**	**(2,046)**

Sezione 11 Net adjustments/write-backs on tangible assets – Net value adjustments on tangible assets – Item 170

11.1 Net adjustments/Write-backs on tangible assets: breakdown

Asset/Income component *(thousands of Euro)*	**Depreciation (a)**	**Value adjustments for impairment (b)**	**Write-backs (c)**	**Net result (a+b-c)**
A. Tangible assets				
A.1 Owned	(8,346)	-	-	(8,346)
- for functional use	(8,346)	-	-	(8,346)
- for investment	-	-	-	-
A.2 Purchased under finance lease	-	-	-	-
- for functional use	-	-	-	-
- for investment	-	-	-	-
Total	**(8,346)**	**-**	**-**	**(8,346)**

Sezione 12 Net value adjustments on intangible assets – Item 180

12.1 Net value adjustments on intangible assets: breakdown

Asset/Income component *(thousands of Euro)*	**Amortization (a)**	**Value adjustments for impairment (b)**	**Write-backs (c)**	**Net result (a+b-c)**
A. Intangible assets				
A.1 Owned	(1,425)	-	-	(1,425)
- generated internally by the company	-	-	-	-
- other	(1,425)	-	-	(1,425)
A.2 Purchased under finance lease	-	-	-	-
Total	**(1,425)**	**-**	**-**	**(1,425)**

Sezione 13 Other operating income and costs – Item 190

13.1 Other operating costs: breakdown

(thousands of Euro)	**31/12/2011**	**31/12/2010**
1. Cash, material, and operating differences	(122)	(157)
2. Losses on receivables from Deposit Insurance Funds	(177)	(15)
3. Other costs	(1,891)	(1,436)
Total	**(2,190)**	**(1,608)**

13.2 Other operating income: breakdown

(thousands of Euro)	**31/12/2011**	**31/12/2010**
1. Property rental	384	329
2. Recovery of management costs	2,841	2,640
3. Charges to third parties for various recoveries	8,834	6,771
4. Other income	868	934
Total	**12,927**	**10,674**

Sezione 14 Profit (loss) on equity investments – Item 210

14.1 Profit (Loss) on equity investments: breakdown

Income component/Amounts *(thousands of Euro)*	**31/12/2011**	**31/12/2010**
A. Income	318	-
1. Revaluations	-	-
2. Profit from disposals	-	-
3. Write-backs	318	-
4. Other income:	-	-
B. Charges	-	(2,086)
1. Write-downs	-	-
2. Value adjustments for impairment	-	(2,033)
3. Losses from disposal	-	(53)
4. Other charges	-	-
Net result	**318**	**(2,086)**

Sezione 15 Net result from measuring tangible and intangible assets at fair value - Item 220

15.1 Net result from measuring tangible and intangible assets at fair value: breakdown

During the financial year and in the previous year, there were no gains or losses from measuring tangible and intangible assets at fair value fair value.

Sezione 16 Value adjustments to goodwill – Item 230

16.1 Value adjustments to goodwill breakdown

As described in comment of Section “12. Intangible assets” of the balance sheet assets, no value adjustments of goodwill were recognized during the financial year.

Sezione 17 Profit (loss) from disposal of investments – Item 240

17.1 Profit (Loss) from disposal of investments: breakdown

Income component/Amounts *(thousands of Euro)*	31/12/2011	31/12/2010
A. Property	-	-
- Profit from disposals	-	-
- Losses from disposal	-	-
B. Other assets	54	(38)
- Profit from disposals	54	9
- Losses from disposal	-	(47)
Net result	**54**	**(38)**

Sezione 18 Income tax for the year on current operations - Item 260

18.1 Income tax for the year on current operations: breakdown

Income component/Amounts *(thousands of Euro)*	IRES (Corporate Income Tax)	IRAP (Regional tax on productive activities)	31/12/2011	31/12/2010
1. Current taxes (-)	(12,007)	(5,249)	(17,256)	(12,707)
2. Changes in current taxes compared to previous years (+/-)	-	-	-	-
3. Reduction in current taxes for the year (+)	-	-	-	-
4. Changes in prepaid taxes (+/-)	2,616	(6)	2,610	(2,650)
5. Changes in deferred tax liabilities (+/-)	(200)	(89)	(289)	969
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	**(9,591)**	**(5,344)**	**(14,935)**	**(14,388)**

18.2 Reconciliation between theoretical tax expense and real tax expense in the financial statements

(thousands of Euro)	IRES (Corporate Income Tax)	%
IRES tax with application of nominal rate	**9,199**	**27.50%**
Tax-free losses on equity investments	-	0.00%
Non-deductible interest expense	667	2.00%
Non-deductible costs	883	2.64%
Total tax effect of increases	**1,550**	**4.64%**
Dividends	(87)	-0.26%
Other decreases	(1,071)	-3.20%
Total tax effect of decreases	**(1,158)**	**-3.46%**
IRES tax charged to the income statement	**9,591**	**28.68%**

(thousands of Euro)	IRAP (Regional tax on productive activities)	%
IRAP tax with application of nominal rate	**1,613**	**4.82%**
Personnel costs	2,427	7.26%
Net value adjustments for impairment	942	2.82%
Non-deductible interest expense	119	0.36%
Other increases	462	1.38%
Total tax effect of increases	**3,950**	**11.82%**
Dividends	(8)	-0.02%

Other decreases	(212)	-0.63%
Total tax effect of decreases	**(220)**	**-0.65%**
IRAP tax charged to the income statement	**5,343**	**15.99%**

Sezione 19 Profits (losses) on discontinued operations held for disposal after taxes – Item 280

19.1 Profit (loss) on asset groups held for disposal after taxes: breakdown

During the financial year, as in the previous year, there were no profits or losses of the asset or liability groups held for disposal after taxes, for which the breakdown is to be reported.

19.2 Detail of the income taxes relative to the assets/liability groups held for disposal

During the financial year, as in the previous year, there were no income taxes relative to the assets/liability groups held for disposal.

Sezione 20 Other disclosures

(thousands of Euro)		31/12/2011	31/12/2010
a)	**Debit adjustments**	**381,640**	**333,365**
	1. Current accounts	82,466	78,273
	2. Central portfolio	295,637	251,206
	3. Cash on Hand	3,451	3,717
	4. Other accounts	86	169
b)	**Credit adjustments**	**404,069**	**383,582**
	1. Current accounts	146,589	132,677
	2. Assignment of bills and documents	256,626	250,054
	3. Other accounts	854	851

Sezione 21 Earnings per share

	31/12/2011	31/12/2010
Basic earnings per share	0.53	0.50
Diluted earnings per share	-	-
	0.53	**0.50**

As at the balance sheet date there are no outstanding transactions having dilutive effects on the number of shares.

21.1 Average number of diluted ordinary shares

As at the balance sheet date there are no outstanding transactions having dilutive effects on the number of shares.

21.2 Other disclosures

There is no other significant information other than that already indicated in the previous sections.

PART D STATEMENT OF COMPREHENSIVE INCOME

Analytical prospectus of overall profitability

Items *(thousands of Euro)*		Gross amount	Income taxes	Net amount
10.	**Profit (loss) for the year**	**X**	**X**	**18,515**
	Other income items			
20.	Available-for-sale financial assets:	(6,100)	1,969	(4,131)
	a) changes in fair value	(5,999)	1,935	(4,064)
	b) reallocations to income statement	(101)	34	(67)
	- impairment adjustments	-	-	-
	- profit/loss from disposal	(101)	34	(67)
	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.	Exchange differences:			
	a) changes in value			
	b) reallocations to income statement			
	c) other changes			
80.	Non-current assets held for disposal:			
	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**	**(6,100)**	**1,969**	**(4,131)**
120.	**Comprehensive income (Item 10+110)**	**(6,100)**	**1,969**	**14,384**

PART E INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Sezione 1 Credit risk

QUALITATIVE INFORMATION

1. General aspects

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, selecting customers based on criteria regarding the reliability and the merit of the specific needs and financial goals.

For small enterprises, on the other hand, demand concentrated mainly on short-term commitments, characterized 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 jeopardize 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, customized relations.

2. Credit risk management policies

2.1 Organizational aspects

Credit risk is the risk of incurring losses due to default by the counterparty or the risk that a debtor or counterparty fails to meet assumed financial 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. In particular, credit risk may be manifest in the following types of risk:

- credit default risk is the risk that a debtor is unable to fulfil commitments taken on, generating a loss represented by the unrecovered portion of the loan;

- counterparty credit risk is the risk that a counterparty to a transaction does not fulfil its obligations with the methods and within the times limits envisaged by the contract;
- risk of change in solvency is the risk associated with the deterioration of the borrower's and counterparty's credit rating, i.e. or that it is must be classified in a lower rating class (the so-called downgrading), without there necessarily being an immediate economic loss for the bank;
- risk of change of credit rating in securities (credit spread risk) is the risk that an unexpected change of the credit rating of a counterparty generates a corresponding unexpected change of the market value of the exposure; this event immediately leads to an economic loss for the bank;
- settlement risk is the risk of incurring losses, whenever, while settling a transaction, the counterparty is no longer able to fulfil its commitments. Settlement risk originates mainly from swap transactions and contracts where which the counterparty is unable to fulfil its obligations (handover securities or sums of money) during settlement, after the bank has already honoured its commitments;
- sovereign risk is the risk of cross-border payments transfers, that describes a potential unwillingness to pay (political risk) or also the insolvency (economic risk) of a country. In other words, the risk is associated with the possibility of losses subsequent to the insolvency of a foreign country, of a measure by foreign country that blocks international settlements, or defaults on the part of non-Italian debtors for causes depending on macroeconomic variables of the country in which it operates. The EU countries that fulfil the convergence criteria, as well as Switzerland, Norway, Sweden, Denmark, and Great Britain, are not in this sense considered as countries at material risk;
- currency exposure risk is the risk of a possible insolvency of the debtor in case of a worsening of foreign exchange rates and the consequential increase of debt;
- concentration risk of the loan portfolio is the risk of concentration on individual borrowers, groups of borrowers, markets, sectors, or regions;
- residual risk is the risk that the techniques acknowledged for risk mitigation utilized by the Bank turn out to be effective than expected. The residual risk is manifest, therefore, in relation to the Credit Risk Mitigation techniques utilized to determine the absorption of the capital required to cope with the credit risk.

From an organizational 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 efficiency and making reference to the risk management policy, is in place to clearly and at the highest levels define activities, roles and responsibilities during all phases of the loan process and to ensure the necessary separation between operational and control functions.

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 Internal Auditing Area as part of their direct and remote auditing duties, for the purpose of verifying credit quality, the 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 Irregular Loans Analysis Service, which reports to the Central Loans Department and is composed of staff based at Central Office, is tasked with 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 is part of the Legal Section within Corporate Affairs Unit. This service is composed of in-house legal advisors and administrative-accounting staff and is in charge of performing all the activities related to the management of non-performing positions (legal action and out-of-court credit collection).

2.2 Management, measurement and control 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 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/analyses 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 computerized 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, and 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 analyzed 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 authorization powers. The disclosure of performance rating is anticipated during the yearly meeting for high-end corporate customers only; this is done to make the consultancy services more systematic, unequivocal, and structured, and to help determine critical aspects regarding the customer and its potential.

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 emphasized 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 2011, significant exposure analysis showed that none of these limits had been exceeded.

All loans portfolio risk analyses and data are contained in a detailed quarterly report issued by the Risk Management Service, 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 loans established by the supervisory body (past-due, substandard, watchlist, restructured, and non-performing loans), the system also anticipates two classes for performing customers:

- positions "under observation", which are those that show minor and/or repeated irregularities that network managers can manage and monitor;
- "high risk" positions, i.e., positions that continuously and repeatedly show performance-type irregularities or negative trends in the risk centre or for which particular negative events occur for which settlement is deemed possible within 12 months through quantitative and qualitative revision of the position.

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 computerized 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/organizational/legal system is used (computerized 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 periodic revaluation processes 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:

- bad debts, 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;
  - are 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, in accordance with the regulatory provisions (item 2477 of the Accounting Manual), grants a moratorium for the payment of debt, allows amendments to the original contractual terms due to deterioration of the economic-financial condition at lower-than-market rates;

- past due, positions that a continued uncovered situation of greater than 180 days, in accordance with the Bank of Italy standards (Circular letter no. 263 dated 27/12/2006 as amended). Starting in 2012 the limit shall be reduced to 90 days and the exposure should be higher than 5% of the overall exposure in the observation period;
- single transactions past due, positions where there are continuous mortgage loans past due for over 90 days, with minimum limit in terms of amount.

As already described in the section on organizational 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 bad debt 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 optimize legal proceedings and maximize 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, organizationally independent of the credit disbursement/assessment/collection processes. These also always take into account the need to encash the asset immediately and, after the introduction of the IAS 39, are subject to cash discounting criteria.

The correct implementation of bad debt management and assessment activity is also ensured by periodic audits performed internally, by the Internal Auditing Area, 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 Loan exposure distribution by related portfolio and by credit quality (book values)

Portfolio/quality *(thousands of Euro)*	**Bad debt**	**Watchlist**	**Restructured exposures**	**Past due exposures**	**Other assets**	**Total**
1. Financial assets held for trading	-	-	-	-	193,705	**193,705**
2. Available-for-sale financial assets	-	-	-	-	108,676	**108,676**
3. Financial assets held to maturity	-	-	-	-	3,693	**3,693**
4. Due from banks	-	-	-	-	172,171	**172,171**
5. Loans to customers	130,275	103,443	10,617	11,277	4,542,026	**4,797,638**
6. Financial assets carried *at fair value*	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedges	-	-	-	-	-	**-**
Total as at 31/12/2011	**130,275**	**103,443**	**10,617**	**11,277**	**5,020,271**	**5,275,883**
Total as at 31/12/2010	**114,483**	**96,806**	**8,411**	**34,198**	**4,645,511**	**4,899,409**

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

Portfolio/quality *(thousands of Euro)*	**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	193,705	**193,705**
2. Available-for-sale financial assets	-	-	-	108,676	-	108,676	**108,676**
3. Financial assets held to maturity	-	-	-	3,693	-	3,693	**3,693**
4. Due from banks	-	-	-	172,171	-	172,171	**172,171**
5. Loans to customers	363,551	(107,939)	255,612	4,562,378	(20,352)	4,542,026	**4,797,638**
6. Financial assets carried *at fair value*	-	-	-	X	X	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	-	**-**
8. Hedges	-	-	-	X	X	-	**-**
Total as at 31/12/2011	**363,551**	**(107,939)**	**255,612**	**5,040,623**	**(20,352)**	**5,020,271**	**5,275,883**
Total as at 31/12/2010	**342,431**	**(88,533)**	**253,898**	**4,664,566**	**(19,055)**	**4,645,511**	**4,899,409**

The Portfolio adjustments on the amounts due from customers only regard write-downs on performing positions.

As at the balance sheet date, there are performing loans subject to renegotiation within the remit of collective agreements. As required by the Bank of Italy in the "*Roneata*" [publication] of 16 February 2011, an analysis of the seniority of performing loans that are past due but not impaired is reported below:

(thousands of Euro)	Under 3 months	From 3 to 6 months	From 6 months to 1 year	Over 1 year	Total
Loans to customers:					
-loans under renegotiation	2,899	105	-	-	3,004
- other exposure	173,529	15,702	6,798	-	196,029
Total as at 31/12/2011	**176,428**	**15,807**	**6,798**	-	**199,033**
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 *(thousands of Euro)*	Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A. CASH EXPOSURE				
a) Bad debt	-	-	X	-
b) Watchlist	-	-	X	-
c) Restructured exposures	-	-	X	-
d) Past due exposures	-	-	X	-
e) Other assets	308,140	X	-	**308,140**
TOTAL A	**308,140**	**-**	**-**	**308,140**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	-	-	X	-
b) Other	27,392	X	-	**27,392**
TOTAL B	**27,392**	**-**	**-**	**27,392**
Total A+B	**335,533**	**-**	**-**	**335,533**

Cash exposures comprise all the financial assets on a cash basis owed by banks, regardless of their allocation in the accounting portfolio (trading, held for sale, held to maturity, receivables, assets carried at fair value, financial assets held for disposal).

The "off-balance sheet" exposures include all financial transactions other than those on a cash basis (guarantees issued, commitments, derivatives, etc.) which involve the assumption of a credit risk, regardless of the purposes of said transactions (trading, hedging, etc.).

A.1.4 Cash exposures from loans to banks: dynamics of gross impaired exposures

As at the balance sheet date, as for the previous financial year, there are no impaired loans to banks

A.1.5 Cash exposures from loans to banks: changes in overall value adjustments

As at the balance sheet date, as for previous year, there are no value adjustments referring to cash exposures from loans to banks.

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

Exposure type/Values *(thousands of Euro)*		Gross exposure	Specific value adjustments	Portfolio value adjustments	Net exposure
A.	**CASH EXPOSURE**				
a)	Bad debt	219,771	(89,496)	X	**130,275**
b)	Watchlist	115,927	(12,484)	X	**103,443**
c)	Restructured exposures	16,398	(5,781)	X	**10,617**
d)	Past due exposures	11,455	(178)	X	**11,277**
e)	Other assets	4,705,138	X	(20,352)	**4,684,786**
	TOTAL A	**5,068,689**	**(107,939)**	**(20,352)**	**4,940,398**
B.	**OFF-BALANCE SHEET EXPOSURES**				
a)	Non-performing	4,816	-	X	**4,816**
b)	Other	576,999	X	-	**576,999**
TOTAL B		**581,815**	**-**	**-**	**581,815**
Total A+B		**5,650,504**	**(107,939)**	**(20,352)**	**5,522,213**

The Cash exposures include all the financial assets on a cash basis owed by customers, regardless of their allocation in the accounting portfolio (trading, held for sale, held to maturity, receivables, assets carried at fair value, financial assets held for disposal).

The "off-balance sheet" exposures include all financial transactions other than those on a cash basis (guarantees issued, commitments, derivatives, etc.) which involve the assumption of a credit risk, regardless of the purposes of said transactions (trading, hedging, etc.).

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

Reasons/Categories *(thousands of Euro)*		Bad debt	Watchlist	Restructured exposures	Past due exposures
A.	**Gross opening exposure**	**188,843**	**103,968**	**14,937**	**34,684**
	of which: exposures sold and not cancelled	3,616	2,704	**-**	86
B.	**Increases**	**68,268**	**96,090**	**7,674**	**75,641**
B.1	Income from performing loan exposure	16,685	71,260	6,335	71,141
B.2	Transfers from other categories of impaired exposures	41,629	18,142	-	4
B.3	Other increases	9,954	6,688	1,339	4,496
C.	**Decreases**	**37,340**	**84,130**	**6,213**	**98,870**
C.1	Transferred to performing loans	1,675	19,870	-	60,605
C.2	Derecognitions	3,168	11	-	-
C.3	Collections	32,497	28,064	4,446	16,441
C.4	Sale proceeds	-	-	-	-
C.5	Transfers to other categories of impaired exposures	-	36,185	1,767	21,824
C.6	Other decreases	-	-	-	-
D.	**Gross closing exposure**	**219,771**	**115,928**	**16,398**	**11,455**
	of which: exposures sold and not cancelled	4,464	1,265	-	560

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

Reasons/Categories *(thousands of Euro)*		Bad debt	Watchlist	Restructured exposures	Past due exposures
A.	**Overall opening adjustments**	**74,360**	**7,161**	**6,526**	**486**
	of which: exposures sold and not cancelled	-	-	-	-
B.	**Increases**	**26,628**	**8,358**	**216**	**-**
B.1	Value adjustments	23,982	8,358	216	-
B.2	Transfers from other categories of impaired exposures	1,929	-	-	-
B.3	Other increases	717	-	-	-
C.	**Decreases**	**11,492**	**3,035**	**961**	**308**
C.1	Write-back from valuation	7,730	140	9	308
C.2	Write-back from collection	2,159	966	952	-
C.3	Derecognitions	1,603	-	-	-
C.4	Transfers to other categories of impaired exposures	-	1,929	-	-
C.5	Other decreases	-	-	-	-
D.	**Overall closing adjustments**	**89,496**	**12,484**	**5,781**	**178**
	of which: exposures sold and not cancelled	306	-	-	3

A.2 Exposure classification based on internal and external ratings

A.2.1 Distribution of cash and "off-balance sheet" credit exposures by external rating class

The Bank adopts the credit ratings issued by the following External Credit Assessment Institutions (ECAI): Standard & Poor's ratings Services.

Taking into account the composition of the loan portfolio, composed predominantly of loans to small and medium-size companies, family business and craftsmen, professionals, and consumer households, the distribution of the cash and "off-balance sheet" exposures by rating class appears insignificant.

A.2.2 Distribution of cash and "off-balance sheet" credit exposures by internal rating class

For prudent credit risk purposes, these are measured with the standard method. The internally generated rating assessments are not relevant for loan processing and prudent governance purposes.

A.3 Distribution of guaranteed loans by guarantee-type.

A.3.1 Guaranteed loans to banks

As at the balance sheet date, as for the previous financial year, there are no guaranteed loans to banks

A.3.2 Guaranteed loans to customers

(thousands of Euro)	**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	**3,840,129**	**2,920,648**	**24,467**	**8,986**	**-**	**-**	**-**	**-**	**-**	**-**	**28,202**	**689**	**740,115**	**3,723,107**
1.1 fully guaranteed	3,535,111	2,772,822	19,899	8,036	-	-	-	-	-	-	26,491	689	707,174	3,535,111
- of which impaired	204,533	182,793	191	19	-	-	-	-	-	-	-	31	21,899	204,533
1.2 part guaranteed	305,018	147,826	4,568	950	-	-	-	-	-	-	1,711	-	32,941	187,996
- of which impaired	33,530	25,236	12	8	-	-	-	-	-	-	-	-	3,447	28,703
2. Off balance sheet guaranteed loan exposures:	**120,363**	**21,110**	**2,419**	**715**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**339**	**94,180**	**118,763**
2.1 fully guaranteed	116,613	20,727	1,527	652	-	-	-	-	-	-	-	191	93,516	116,613
- of which impaired	1,942	625	-	9	-	-	-	-	-	-	-	-	1,308	1,942
2.2 part guaranteed	3,750	383	892	63	-	-	-	-	-	-	-	148	664	2,150
- of which impaired	67	-	39	-	-	-	-	-	-	-	-	-	-	39

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 *(thousands of Euro)*	Governments			Other public authorities			Financial companies			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 exposure																		
A.1 Bad debt	-	-	X	-	-	X	-	(165)	X	-	-	X	104,231	(74,673)	X	26,044	(14,659)	X
A.2 Watchlist	-	-	X	-	-	X	-	-	X	-	-	X	95,424	(11,777)	X	8,019	(707)	X
A.3 Restructured exposures	-	-	X	-	-	X	-	-	X	-	-	X	9,930	(5,465)	X	687	(315)	X
A.4 Past due exposures	-	-	X	-	-	X	-	-	X	-	-	X	3,918	(70)	X	7,359	(108)	X
A.5 Other exposures	98,630	X	-	10,508	X	(55)	121,390	X	(270)	23,424	X	(1)	2,850,024	X	(14,445)	1,580,811	X	(5,582)
Total A	**98,630**	**-**	**-**	**10,508**	**-**	**(55)**	**121,390**	**(165)**	**(270)**	**23,424**	**-**	**(1)**	**3,063,527**	**(91,985)**	**(14,445)**	**1,622,920**	**(15,789)**	**(5,582)**
B. "Off-balance-sheet" exposure																		
B.1 Bad debt	-	-	X	-	-	X	-	-	X	-	-	X	3,108	-	X	141	-	X
B.2 Watch list	-	-	X	-	-	X	-	-	X	-	-	X	1,200	-	X	90	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	197	-	X	79	-	X
B.4 Other exposures	6,940	X	-	2,508	X	-	16,550	X	-	1,612	X	-	428,546	X	-	120,844	X	-
Total B	**6,940**	**-**	**-**	**2,508**	**-**	**-**	**16,550**	**-**	**-**	**1,612**	**-**	**-**	**433,051**	**-**	**-**	**121,154**	**-**	**-**
Total as at 31/12/2011	**105,570**	**-**	**-**	**13,016**	**-**	**(55)**	**137,940**	**(165)**	**(270)**	**25,036**	**-**	**(1)**	**3,496,578**	**(91,985)**	**(14,445)**	**1,744,074**	**(15,789)**	**(5,582)**
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)**

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

Exposures/Geographic areas *(thousands of Euro)*		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 exposure**										
A.1	Bad debt	130,165	(89,097)	110	(399)	-	-	-	-	-	-
A.2	Watchlist	102,695	(12,430)	749	(55)	-	-	-	-	-	-
A.3	Restructured exposures	10,617	(5,780)	-	-	-	-	-	-	-	-
A.4	Past due exposures	11,137	(177)	140	(1)	-	-	-	-	-	-
A.5	Other exposure	4,619,474	(20,122)	57,817	(223)	7,494	(8)	-	-	-	-
Total		**4,874,088**	**(127,606)**	**58,816**	**(678)**	**7,494**	**(8)**	**-**	**-**	**-**	**-**
B.	**"Off-balance-sheet" exposure**										
B.1	Bad debt	3,249	-	-	-	-	-	-	-	-	-
B.2	Watchlist	1,290	-	-	-	-	-	-	-	-	-
B.3	Other impaired assets	277	-	-	-	-	-	-	-	-	-
B.4	Other exposure	563,627	-	13,372	-	-	-	-	-	-	-
Total		**568,443**	**-**	**13,372**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total as at 31/12/2011		**5,442,531**	**(127,606)**	**72,188**	**(678)**	**7,494**	**(8)**	**-**	**-**	**-**	**-**
Total as at 31/12/2010		**5,125,162**	**(106,973)**	**65,605**	**(608)**	**7,615**	**(9)**	**-**	**-**	**-**	**-**

Exposures/Geographic areas *(thousands of Euro)*		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 exposure**										
A.1	Bad debt	3,405	(878)	125,755	(86,823)	760	(610)	245	(786)	130,165	(89,097)
A.2	Watchlist	12,193	(596)	90,233	(11,807)	261	(20)	8	(7)	102,695	(12,430)
A.3	Restructured exposures	-	-	10,617	(5,780)	-	-	-	-	10,617	(5,780)
A.4	Past due exposures	80	-	11,057	(177)	-	-	-	-	11,137	(177)
A.5	Other exposure	192,542	(864)	4,268,371	(18,956)	146,770	(241)	11,791	(61)	4,619,474	(20,122)
Total		**208,220**	**(2,338)**	**4,506,033**	**(123,543)**	**147,791**	**(871)**	**12,044**	**(854)**	**4,874,088**	**(127,606)**
B.	**"Off-balance-sheet" exposure**										
B.1	Bad debt	-	-	3,247	-	-	-	2	-	3,249	-
B.2	Watchlist	-	-	1,290	-	-	-	-	-	1,290	-
B.3	Other impaired assets	-	-	277	-	-	-	-	-	277	-
B.4	Other exposure	23,316	-	532,159	-	7,828	-	324	-	563,627	-
Total		**23,316**	**-**	**536,973**	**-**	**7,828**	**-**	**326**	**-**	**568,443**	**-**
Total as at 31/12/2011		**231,536**	**(2,338)**	**5,043,006**	**(123,543)**	**155,619**	**(871)**	**12,370**	**(854)**	**5,442,531**	**(127,606)**
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)**

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

Exposures/Geographic areas *(thousands of Euro)*		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 exposure**										
A.1	Bad debt	-	-	-	-	-	-	-	-	-	-
A.2	Watchlist	-	-	-	-	-	-	-	-	-	-
A.3	Restructured exposures	-	-	-	-	-	-	-	-	-	-
A.4	Past due exposures	-	-	-	-	-	-	-	-	-	-
A.5	Other exposure	230,629	-	73,694	-	3,009	-	796	-	13	-
Total		**230,629**	**-**	**73,694**	**-**	**3,009**	**-**	**796**	**-**	**13**	**-**
B.	**"Off-balance-sheet" exposure**										
B.1	Bad debt	-	-	-	-	-	-	-	-	-	-
B.2	Watchlist	-	-	-	-	-	-	-	-	-	-
B.3	Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4	Other exposure	11,546	-	245	-	-	-	-	-	-	-
Total		**11,546**	**-**	**245**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total as at 31/12/2011		**242,175**	**-**	**73,939**	**-**	**3,009**	**-**	**796**	**-**	**13**	**-**
Total as at 31/12/2010		**123,221**	**-**	**96,697**	**-**	**9,802**	**-**	**470**	**-**	**44**	**-**

B.4 Significant exposures

With the 6th update of the Circular Letter no. 263 "New regulations for the prudential supervision of banks" of 27 December 2010, the prudent regulation in matters of risk concentration was revised to bring it in line the Directive 2009/111/EC. The new regulation that came into effect on December, 31 2010 defines "significant exposures" as exposures to a legally or economically related customer or customer group if exceeding or equal to 10% of the regulatory capital.

The values relative to the significant exposures recognized as at the balance sheet date are reported below:

Number of significant exposures	Credit exposure (Euro)	Amount weighted for the purposes of the significant exposures (Euro)
4	293,999,458	154,122,635

C) SECURITIZATION AND ASSET DISPOSAL TRANSACTIONS

C.1 Securitization transactions

QUALITATIVE INFORMATION

Securitization of residential mortgages – S.P.V. VOBA Finance S.r.l. (September 2006)

Issue characteristics

The first securitization 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 securitization 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 securitization 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 securitized mortgages, along with credit collection in the event of default by the debtors. An ad hoc credit control system was arranged for the securitized 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	Mortgage loans
- 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	Euro 378,249,095.23
- Par value of loans transferred	Euro 378,249,095.23

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	AAA/A2	1.50%	5,650,000
Class C	AA/Baa2	1.50%	5,650,000
Class D	-	2.00%	7,600,000
Total		**100.00%**	**378,250,000**

The Class D securities were fully subscribed by Banca Popolare dell'Alto Adige.

As at the balance sheet date, SPV Voba Finance S.r.l. fully redeemed the Class A1 securities. A total of 109 million in securities remain, 90.2 million of which Class A securities 2, 5.7 million of which Class B Securities, 5.7 of which class C, and 7.6 million of which Class D.

Supplementary financial transactions

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 recognizes 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.

Quantitative Disclosure

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

Underlying asset quality/Exposures *(thousands of Euro)*	Cash exposure						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 underlying bank assets:	**19,596**	**19,596**	**3,850**	**3,850**	**7,600**	**7,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	19,596	19,596	3,850	3,850	7,600	7,600	-	-	-	-	-	-	-	-	-	-	-	-
B. With underlying third party assets:	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.2 Exposures from Bank's own major securitization transactions according to securitized asset type and exposure type

Securitized asset type/Exposures *(thousands of Euro)*	**Cash exposure**						**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 derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Subject to partial derecognition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
C. Not derecognized	**19,596**	**-**	**3,850**	**-**	**7,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Voba Finance S.r.l. -Mortgage loans	19,596	-	3,850	-	7,600	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.3 Exposures from main third party securitization transactions according to securitized asset type and exposure type

Underlying asset type/Exposures *(thousands of Euro)*	**Cash exposure**						**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	1,185																	
AYTCEAMI -Fondo de titulizacìon de activos	3,554	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Exposures deriving from securitization transactions broken down by financial asset portfolio and by type

Exposure / portfolio *(thousands of Euro)*	**Financial assets held for trading**	**Financial assets - fair value option**	**Available-for-sale financial assets**	**Financial assets held to maturity**	**Loans**	**31/12/2011**	**31/12/2010**
1. Cash exposure	**3,554**	**-**	**-**	**1,185**	**-**	**4,739**	**4,852**
- "Senior"	3,554	-	-	1,185	-	4,739	4,852
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-
2. Off-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- "Senior"	-	-	-	-	-	-	-
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-

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

Asset/Value *(thousands of Euro)*	**Traditional securitizations**	**Synthetic securitizations**
A. Underlying bank assets:	**31,046**	**-**
A.1 Subject to full derecognition	-	-
1. Bad debt	-	X
2. Watchlist	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.2 Subject to partial derecognition	-	X
1. Bad debt	-	X
2. Watchlist	-	X
3. Restructured exposures	-	X
4. Past due exposures	-	X
5. Other assets	-	X
A.3 Not derecognized	31,046	-
1. Bad debt	4,464	-
2. Watchlist	1,265	-
3. Restructured exposures	-	-
4. Past due exposures	560	-
5. Other assets	24,757	-
B. Underlying third party assets:	**-**	**-**
B.1 Bad debt	-	-
B.2 Watchlist	-	-
B.3 Restructured exposures	-	-
B.4 Past due exposures	-	-
B.5 Other assets	-	-

C.1.6 Interest in the SPV

As at the balance sheet date, as for the previous financial year, no interest was held in the SPV

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

SPV *(thousands of Euro)*	Securitized assets (year-end figure)		Loan collections Made in the year		Percentage of securities redeemed (year-end figure)					
					Senior		Mezzanine		Junior	
	Non-performing	Performing	Non-performing	Performing	Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Voba Finance S.r.l.	6,288	155,627	1,456	28,580	-	74.90%	-	-	-	-

C.2 Disposal transactions

C.2.1 Financial assets disposed and not derecognized

Technical/portfolio formats *(thousands of Euro)*	Financial assets held for trading			Financial assets carried at fair value			Available-for-sale financial assets			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**	**31/12/2011**	**31/12/2010**
A. Cash assets	13,173	-	-	-	-	-	19,337	-	-	-	-	-	-	-	-	161,610	-	-	194,120	256,672
1. Debt securities	13,173	-	-	-	-	-	19,337	-	-	-	-	-	-	-	-	-	-	-	32,510	64,883
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	161,610	-	-	161,610	191,789
B. Derivatives	-	-	-	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	-	-
Total as at 31/12/2011	**13,173**	**-**	**-**	**-**	**-**	**-**	**19,337**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**161,610**	**-**	**-**	**194,120**	
of which impaired																**5,979**			**5,979**	
Total as at 31/12/2010	**44,037**	-	-	-	-	-	**14,439**	-	-	**6,407**	-	-	-	-	-	**191,789**	**-**	**-**		**256,672**
of which impaired																**6,406**				**6,406**

A = financial assets disposed and fully recognized (book value)

B = financial assets disposed and partly recognized (book value)

C = financial assets sold and part recognized (book value)

C.2.2 Financial liabilities from financial disposed sold but not derecognized

Liability/Asset portfolio *(thousands of Euro)*	**Financial assets held for trading**	**Financial assets carried at fair value**	**Available-for-sale financial assets**	**Financial assets held to maturity**	**Due from banks**	**Loans to customers**	**Total**
1. Due to customers	**20,461**	**-**	**19,553**	**-**	**-**	**73,524**	**113,538**
a) in relation to assets recognized in full	20,461	-	19,553	-	-	73,524	**113,538**
b) in relation to assets recognized partly	-	-	-	-	-	-	**-**
2. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) in relation to assets recognized in full	-	-	-	-	-	-	**-**
b) in relation to assets recognized partly	-	-	-	-	-	-	**-**
Total as at 31/12/2011	**20,461**	**-**	**19,553**	**-**	**-**	**73,524**	**113,538**
Total as at 31/12/2010	**60,522**	-	**14,744**	**6,262**	-	**104,045**	**185,573**

C.3 Covered Bond Transactions

As at the balance sheet date, there are no existing covered bond transactions.

D) CREDIT RISK MEASUREMENT MODELS

In measuring the credit risk portfolio, the Risk Management Service used an econometric model fed by a vast set of data and risk variables for management purposes.

The model, through the use of Credit-VaR, permits the probability distribution of the portfolio loan loss portfolio for f resident ordinary and financial customers to be defined, with particular reference to collectively and comprehensively valued exposures. This distribution is used to measure the maximum potential loss during a year at a specific confidence level.

In particular, to derive this distribution, the model calculation engine uses a “Monte Carlo” simulation approach, through which a number of scenarios large enough to provide a good empirical approximation of the theoretical distribution of the loan portfolio losses is simulated.

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.

However it is used for calculating expected and unexpected losses in the loan portfolio and for the performance of stress testing for the purpose of assessing the effects of extraordinary but plausible events on the portfolio.

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 determination of the maximum potential loss, decomposable in the classic metrics of Expected Loss and Unexpected Loss (economic capital), is sensitive of the effects concentration risk (deriving from the high exposures to individual counterparties – name concentration – or types of counterparties, homogeneous in terms of geographical areas and/or economic sectors, whose credit rating depends on one or more background factors – industry concentration), and the systemic risk (deriving from the impact of unexpected changes to macroeconomic factors on the probability of insolvency of the individual counterparties).

The impact of these components on the credit risk also depends, in addition to the degree of concentration of the loan portfolio, on the structure of the default probability correlation matrix, in turn estimated through a qualitative stress testing model (developed and updated internally), capable of relating the decay rates of homogeneous counterparties in terms of economic sector and geographical area to a set of “first-level” (international and national) and “second level” (regional) economic-financial factors.

Finally, the portfolio model periodically undergoes stress testing to evaluate the sensitivity of the portfolio's credit risk to changes, both moderate and extreme (provided that they are plausible), of one (so-called sensitivity analysis) or more (so-called scenario analysis) economic-financial factors.

Sezione 2 Market risks

2.1 Interest rate risk and pricing risk – trading portfolio adequacy

QUALITATIVE INFORMATION

A. General aspects

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; the purpose of trading is to achieve absolute returns maximizing yields on the portfolio in compliance with the Value at Risk (VaR) and Stop-Loss limits defined in the document Limits and Delegations in the Finance Department. The bond section of the portfolio is predominantly composed of floating rate securities; the flat rate portion has a limited duration. Bonds held refer to the most part to securities issued by the Republic of Italy or by Italian banks with a rating greater than investment grade. Interest rate risk is assumed 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.

The financial instruments present in trading portfolio are almost all denominated in Euro, making the Exchange Risk totally marginal.

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, and in the document Limits and Delegations in the Finance Department, both subject to periodic review and consideration by the Board of Directors.

The policy formalizes the performance of risk management activities concerning market risks, it defines the tasks and the responsibilities assigned to the various organizational units having expertise on the matter and specifies, among other things, the main operating processes, the methods of measurement, the exposure limits, the information flows, and any corrective measures.

The investments and trading activity is therefore performed in conformity with the internal policy and is carried out within a structured internal regulatory system of delegations of management powers ("Limits and Delegations in the Finance Department "), which anticipates operational limitations defined in terms of instruments, amounts, duration, investment markets, issue and issuer-types, sector, and rating.

Risk monitoring is carried out by the Risk Management Service 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 contained 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 authorization 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 operating limits 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.

Position limits 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 for cumulative results achieved and not achieved over the last 5 business days (weekly stop-loss) and over the last 30 calendar days (monthly stop-loss), backed by cumulative monitoring at the start of the year, via a reporting process 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 in turn broken down across the various asset classes that make up the portfolio.

With regard to VaR limits, 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 authorized risk limits, thanks to a standardized 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 2011, the 10-day 99% Value-at-Risk (VaR) of Banca Popolare dell'Alto Adige was, on average, approximately 3.47 million Euro. As at 31 December 2011, the VaR was 4.75 million Euro.
- *Interest rate risk VaR:* During 2011, the average VaR was approximately 1.25 million Euro. As at 31 December 2011, the interest rate risk VaR was 1.21 million Euro.
- *Share portfolio VaR (price risk):* the VaR on the Bank's Share Portfolio in 2011 recorded an average value of 2.19 million Euro. As at 31 December 2011, the share VaR was 3.53 million Euro.

Quantitative information

1. Trading portfolio adequacy: break-down of cash financial assets and liabilities and financial derivatives by residual maturity (date of re-pricing) (EURO)

Currency: Euro

Type/Residual life *(thousands of Euro)*	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	Unspecified life
1. Cash assets	**-**	**73,960**	**20,544**	**4,539**	**34,109**	**3,794**	**4,734**	**-**
1.1 Debt securities	-	73,960	20,544	4,539	34,109	3,794	4,734	-
- with early redemption option	-	-	-	-	-	-	-	-
- Other	-	73,960	20,544	4,539	34,109	3,794	4,734	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**13,301**	**7,160**	**-**	**-**	**-**	**-**	**-**
2.1 Borrowing repurchase agreements	-	13,301	7,160	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**60,027**	**687**	**39,291**	**217,866**	**296,507**	**141,781**	**-**
3.1 With underlying security	-	(4,860)	5,687	(225)	(606)	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(4,860)	5,687	(225)	(606)	-	-	-
+ Long positions	-	5,509	6,936	67	1,625	-	-	-
+ Short positions	-	(10,369)	(1,249)	(292)	(2,231)	-	-	-
3.2 Without underlying security	-	64,887	(5,000)	39,516	218,472	296,507	141,781	-
- Options	-	20,000	-	39,516	248,472	204,609	141,781	-
+ Long positions	-	20,000	-	19,516	120,678	100,066	66,929	-
+ Short positions	-	-	-	20,000	127,794	104,543	74,852	-
- Other derivatives	-	44,887	(5,000)	-	(30,000)	91,898	-	-
+ Long positions	-	257,198	142,273	8,880	71,037	40,949	-	-
+ Short positions	-	(212,311)	(147,273)	(8,880)	(101,037)	50,949	-	-

Currency: USD

Type/Residual life *(thousands of Euro)*		**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**	**Unspecified life**
1.	***Cash assets***	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	4	-	-	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- Other	-	-	-	-	4	-	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Borrowing repurchase agreements	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**7,323**	**5,004**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	7,323	5,004	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	7,323	5,004	-	-	-	-	-
	+ Long positions	-	37,884	5,004	-	-	-	-	-
	+ Short positions	-	(30,561)	-	-	-	-	-	-

Currency: GBP

Type/Residual life ***(thousands of Euro)***		**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**	**Unspecified life**
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***	**-**	**261**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	261	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	261	-	-	-	-	-	-
	+ Long positions	-	260	-	-	-	-	-	-
	+ Short positions	-	1	-	-	-	-	-	-

Currency: CHF

Type/Residual life ***(thousands of Euro)***		**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**	**Unspecified life**
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***	**-**	**(9,101)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	(9,101)	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	(9,101)	-	-	-	-	-	-
	+ Long positions	-	1,719	-	-	-	-	-	-
	+ Short positions	-	(10,820)	-	-	-	-	-	-

Currency: Yen

Type/Residual life ***(thousands of Euro)***	**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**	**Unspecified life**
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	-	**(4,441)**	-	-	-	-	-	-
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(4,441)	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(4,441)	-	-	-	-	-	-
+ Long positions	-	201	-	-	-	-	-	-
+ Short positions	-	(4,642)	-	-	-	-	-	-

Currency: Other

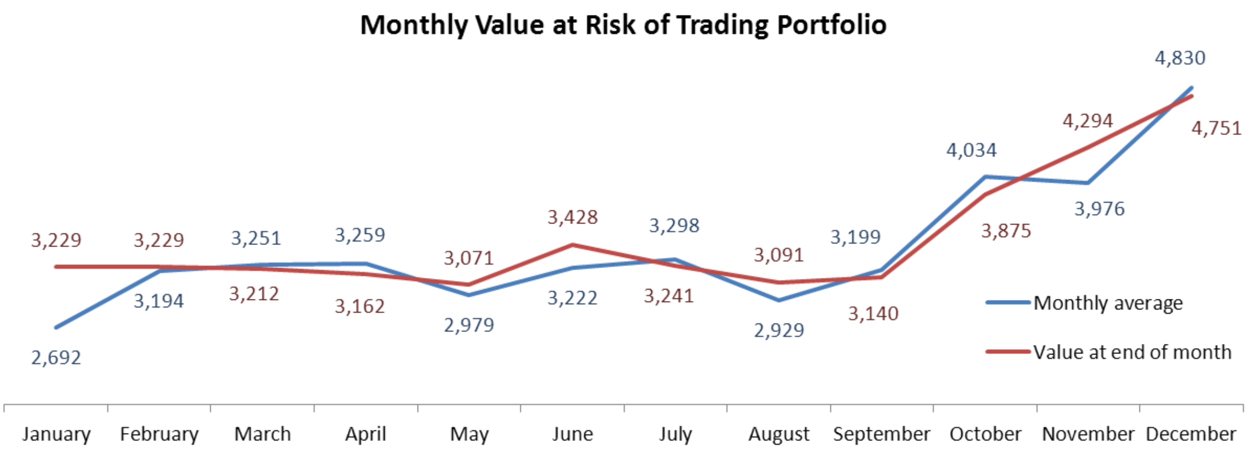
Type/Residual life *(thousands of Euro)*		On demand	Under 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	Over 10 years	Unspecified life
1.	***Cash assets***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with early redemption option	-	-	-	-	-	-	-	-
	- other	-	-	-		-	-	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Borrowing repurchase agreements	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**1,083**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	1,083	-	-	-	-	-	-
	- Options	-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
	- Other derivatives	-	1,083	-	-	-	-	-	-
	+ Long positions	-	1,104	21	-	-	-	-	-
	+ Short positions	-	(21)	(21)	-	-	-	-	-

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
(thousands of Euro)	Germany			
A. Equities	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
B. Equity share transfers not yet settled	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-
C. Other equity share derivatives	7,963	-	-	-
- long positions	7,963	-	-	-
- short positions	-	-	-	-
D. Share index derivatives	-	-	-	-
- long positions	-	-	-	-
- short positions	-	-	-	-

3. Trading portfolio adequacy: internal models and other methods of sensitivity analysis

Below is VaR data relative to 2011 referring to the trading portfolio adequacy of Banca Popolare dell'Alto Adige:



2.2 Interest rate and pricing risk – banking book

QUALITATIVE INFORMATION

A. General considerations, interest rate risk and pricing risk management, procedures and measurement methods

The banking book corresponds to the set of the commercial trading operations of the bank, of the treasury, and of the hedging derivatives. Changes in market rate structure can have adverse effects on the Banking Book (interest margin and capital) and are therefore a source of risk. Changes in interest rates affect income in that they modify the net interest income, as well as the level of other operating costs and revenues sensitive to interest rates, but also the underlying value of assets, liabilities, and off-balance sheet postings, since the present value of the future cash flows varies with changes in interest rates.

The interest-rate risk on the banking book may have different origins:

- basis risk, the risk resulting from an imperfect correlation in the adjustment of the receivable and payable interest rates on various instruments but with otherwise similar price revision features; as interests rates vary, these differences can cause unforeseen changes in cash flows and in the yield differential between assets, liabilities and off-balance sheet positions having analogous maturities or rate-repricing frequency;
- rate repricing risk, the risk deriving for time lags in maturity (for flat rate positions) and in the interest rate adjustment date (for floating-rate positions); these can expose the bank's income and the economic worth to unforeseen fluctuations as interests rates vary;
- yield curve risk, that is the risk that materializes when unexpected changes in the yield curve have adverse effects on the bank's income and underlying economic value. In fact, asymmetries in interest rate repricing times can also expose the bank to changes in the inclination and shape of the yield curve;
- option risk, i.e. the risk deriving from option rights intrinsic to some of the bank's assets, liabilities and off-balance sheet instruments, such as for example various types of bonds or loans with call or put clauses, that grant the option holder the right to modify the characteristics of the rate applied and/or the duration of contract over time.

The Bank’s Banking Book management and investment strategies are in keeping with optimization of the risk-yield ratio and are implemented according to expected interest rate performance. The Bank’s investment policy is therefore focused on optimizing interest rate margins and minimizing their volatility (Asset & Liability Management).

The guidelines and rules and regulations for managing interest rate risk are also contained in the "Risk Policy of the Finance Department" according to a clear and easily understandable model. The measurement of interest rate risk is based on a gap analysis model:

- in relation to the annual interest margin (12 months), the determination of the effect of an instantaneous shift parallel to the interest rate curve equal to one percentage point (± 100 bp) which is assumed to occur instantaneously and in parallel on all maturity dates during the day after the reference date;
- in relation to the present value of capital, the complete repricing (full valuation) of the receivables and payable postings subsequent to a parallel shift of two percentage points (± 200 bp), and recalculating of the difference (“delta”) with respect to previous state. The risk indicator represents the ratio between the change of overall worth and the regulatory capital.

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.

Ermas, by the Prometeia company, is the computer procedure used for the actual calculation of the impacts of the interest rate shifts, and hence for the interest rate risk calculation.

The Risk Management Service then, every month, calculates the sensitivity of the Bank's interest margins and capital to predetermined variations in the rate curve on the transactions underway at the date in question (end of month).

The results of the analysis, together with the rate-change forecasts performed by the Finance and Treasury departments, are contained in the monthly ALM Report and help define 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, two main indicators were identified; these regard the sensitivity of the interest margin and the present value of the capital to the interest rate risk; specific limits were set for these indicators:

- Indicator 1: Interest Margin difference(shock ±1%) / Expected Interest Margin
- Indicator 2: Present Value Difference (shock ±2%) / Regulatory Capital

A limit of 6% is set for indicator 1, whereas a limit of 16% for indicator 2. The Risk Management Service is responsible for verifying the limitations presented in the preceding paragraph, at least once every month.

As at 31 December 2011, with reference to Banca Popolare dell'Alto Adige's banking book, the following observations are noted regarding the interest margin;

- for a sudden shock of –100 bps in the interest rate curve, a positive impact of 0.7% of the margin, quantifiable in a profit of 0.91 million Euro;
- for a sudden shock of –100 bps in the interest rate curve, a negative impact of 1.3% of the margin, quantifiable in loss of 1.67 million Euro.

As regards, instead, the effects on the economic value of the financial postings of the banking book, from the analysis performed it is noted that:

- in case of a parallel decrease in rates of 200 bps, this value would increase by 61.86 million Euro, 12.9% of the Regulatory Capital;
- for an increase of 200 bps, a reduction of 65.97 million Euro, that is 13.8% of the Regulatory Capital, is estimated.

The banking book price risk only refers to the variations in market price of the assets classed as available for sale. As concerns these assets, the methods for measuring and controlling price risk utilize the calculation model previously described, i.e. the daily calculation of the Value at Risk (VAR) with a confidence of 99% in a time horizon of 10 days with the historical method. .

The price risk is also calculated as specified by the prudent supervisory regulations for banks issued by the Bank of Italy and currently in force.

B. Fair value hedging

As at the balance sheet date, there is no fair value hedging.

As regards the hedge accounting of the flat-rate or structured-rate issues, the Bank uses the "fair value option" (FVO) accounting method. The underlying hedging strategy is intended to reduce the duration of the liability that is intended to stabilize the cost of structured issues.

During 2011, the liabilities defined above were systematically hedged by means of (unlisted) OTC Interest Rate Swap derivative contracts.

C. Cash flow hedging

As at the balance sheet date, there is no fair value hedging.

D. Foreign investment hedges

For a thorough analysis, refer to that indicated in section relative to the Exchange risk.

Quantitative information

1. Banking Book: breakdown by residual life (re-pricing date) of financial assets and liabilities (EURO)

Currency: Euro

Type/Residual life *(thousands of Euro)*	**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**	**Unspecified life**
1. Cash assets	**2,028,487**	**2,389,298**	**57,068**	**79,360**	**282,536**	**102,617**	**104,757**	**-**
1.1 Debt securities	32,370	128,870	24,620	22,302	33,662	8,644	2,636	-
- with early redemption option	-	-	-	-	-	-	-	-
- Other	32,370	(128,870)	24,620	22,302	33,662	8,644	2,636	-
1.2 Loans to banks	9,438	42,749	-		-	-	-	-
1.3 Loans to customers	1,986,679	2,217,679	32,448	57,058	248,874	93,973	102,121	-
- current accounts	1,336,721	16,795	6,814	11,548	70,430	-	-	-
- Other loans	649,958	2,200,884	25,634	45,510	178,444	93,973	102,121	-
- with early redemption option	331,451	2,175,545	14,108	20,671	118,638	91,009	102,048	-
- Other	318,507	25,339	11,526	24,839	59,806	2,964	73	-
2. Cash liabilities	**2,224,059**	**1,440,628**	**385,709**	**206,703**	**523,471**	**-**	**73,524**	**-**
2.1 Due to customers	1,916,819	86,057	72,799	60,304	63,872	-	73,524	-
- current accounts	1,642,462	-	-	-	-	-	-	-
- Other amounts due	274,357	86,057	72,799	60,304	63,872	-	73,524	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	274,357	86,057	72,799	60,304	63,872	-	73,524	-
2.2 Due to banks	306,608	265,319	9,053	35,095	22,213	-	-	-
- current accounts	17,929	-	-	-	-	-	-	-
- Other amounts due	288,679	265,319	9,053	35,095	22,213	-	-	-
2.3 Debt securities	632	1,089,252	303,857	111,304	437,386	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- Other	632	1,089,252	303,857	111,304	437,386	-	-	
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- oth er	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(340,323)**	**(124,748)**	**109,538**	**343,885**	**11,648**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(340,323)	(124,748)	109,538	343,885	11,648	-	-
- Options	-	15,000	3,000	7,538	(25,538)	-	-	-
+ Long positions	-	15,001	3,000	7,538	29,598	-	-	-
+ Short positions	-	(1)	-	-	(55,136)	-	-	-
- Other derivatives	-	(355,323)	(127,748)	102,000	369,423	11,648	-	-
+ Long positions	-	77,500	69,442	102,000	369,423	11,648	-	-
+ Short positions	-	(432,823)	(197,190)	-	-	-	-	-

Currency: USD

Type/Residual life ***(thousands of Euro)***	**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**	**Unspecified life**
1. Cash assets	**632**	**2,217**	**686**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	599	-	-	-	-	-	-	-
1.3 Loans to customers	33	2,217	686	-	-	-	-	-
- current accounts	33	-	-	-	-	-	-	-
- Other loans	-	2,217	686	-	-	-	-	-
- with early redemption option	-	2,217	686	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
2. Cash liabilities	**16,328**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	16,201	-	-	-	-	-	-	-
- current accounts	12,677	-	-	-	-	-	-	-
- Other amounts due	3,524	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- Other	3,524	-	-	-	-	-	-	-
2.2 Due to banks	127	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	
- other amounts due	127	-	-	-	-	-	-	
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	
- other	-	-	-	-	-	-	-	
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- oth er	-	-	-	-	-	-	-	-
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	-	30,914	-	-	-	-	-	-
+ Short positions	-	(30,914)	-	-	-	-	-	-

Currency: CHF

Type/Residual life ***(thousands of Euro)***	**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**	**Unspecified life**
1. Cash assets	**4,076**	**22,181**	**9,823**	**-**	**6,022**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	553	-	-	-	-	-	-	-
1.3 Loans to customers	3,523	22,181	9,823	-	6,022	-	-	-
- current accounts	1	-	-	-	-	-	-	-
- other loans	3,522	22,181	9,823	-	6,022	-	-	-
- with early redemption option	3,522	22,181	9,823	-	6,022	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**2,829**	**30,869**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	2,787	-	-	-	-	-	-	-
- current accounts	1,304	-	-	-	-	-	-	-
- other amounts due	1,483	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	1,483	-	-	-	-	-	-	-
2.2 Due to banks	42	30,869	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	
- other amounts due	42	30,869	-	-	-	-	-	
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	-	-	-	-	-	-	-	-

Currency: YEN

Type/Residual life ***(thousands of Euro)***	**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**	**Unspecified life**
1. Cash assets	**981**	**6,455**	**3,238**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	816	-	-	-	-	-	-	-
1.3 Loans to customers	165	6,455	3,238	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	165	6,455	3,238	-	-	-	-	-
- with early redemption option	165	6,455	3,238	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**6,288**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	6,288	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other amounts due	-	6,288	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- oth er	-	-	-	-	-	-	-	-
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	-	1,297	-	-	-	-	-	-
+ Short positions	-	(1,297)	-	-	-	-	-	-

Currency: Other

Type/Residual life *(thousands of Euro)*	**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**	**Unspecified life**
1. *Cash assets*	**621**	**28**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	621	-	-	-	-	-	-	-
1.3 Loans to customers	-	28	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	28	-	-	-	-	-	-
- with early redemption option	-	28	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. *Cash liabilities*	**1,717**	**525**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	1,567	-	-	-	-	-	-	-
- current accounts	1,533	-	-	-	-	-	-	-
- other amounts due	34	-	-	-	-	-	-	-
- with early redemption option	-	-	-	-	-	-	-	-
- other	34	-	-	-	-	-	-	-
2.2 Due to banks	150	525	-	-	-	-	-	-
- current accounts	15	-	-	-	-	-	-	
- other amounts due	135	525	-	-	-	-	-	
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. Banking Book: internal models and other methods of sensitivity analysis

Interest rate risk exposure is measured through an internal model that anticipates a full-valuation approach for all the positions comprising the performing assets and burdensome liabilities. In detail, the model anticipates the following stages:

- calculating the net present value (NPV) of the individual receivable and payable positions and the off-balance sheet postings and determining the economic value (given by the difference between the NPV of the receivable positions and the NPV of the payable positions);
- defining a scenario relative to a change in the interest rate curve (parallel displacement i.e. steepening or flattening of the curve with reference to the maturity dates deemed most significant);
- recalculating the NPV of the balance sheet and off balance sheet instruments based on the new interest rate curve and determining the new economic value;
- determining the change of the economic value as the difference between the value before and after the interest rate shock.

At the end of financial year, the modified duration calculated for the receivables and payable postings of the entire financial statements and the duration gap were moderate. Should the interest rate structure translate upwards in parallel by 200 bps, the equity would record a drop of 62.9 million Euro.

2.3 Exchange rate 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.

Exchange rate risks are managed centrally at the Treasury; exposures to exchange rate risks are limited.

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 integrated 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 by the 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 *(thousands of Euro)*		Currency					
		US dollar	GB pound	Yen	Australian Dollars	Swiss franc	Other currencies
A.	**Financial assets**	**3,539**	**312**	**10,675**	**30**	**42,501**	**307**
A.1	Debt securities	4	-	-	-	-	-
A.2	Equities	-	-	-	-	-	-
A.3	Loans to banks	599	312	816	30	553	279
A.4	Loans to customers	2,936	-	9,859	-	41,948	28
A.5	Other financial assets	-	-	-	-	-	-
B.	**Other assets**	**230**	**77**	**18**	**32**	**172**	**175**
C.	**Financial liabilities**	**16,329**	**668**	**6,288**	**684**	**33,698**	**889**
C.1	Due to banks	128	135	6,288	395	30,911	144
C.2	Due to customers	16,201	533	-	289	2,787	745
C.3	Debt securities	-	-	-	-	-	-
C.4	Other financial liabilities	-	-	-	-	-	-
D.	**Other liabilities**	**-**	**-**	**-**	**-**	**-**	**-**
E.	**Financial derivatives**	**12,326**	**259**	**(4,441)**	**613**	**(9,101)**	**470**
	- Options	-	-	-	-	-	-
	+long positions	-	-	-	-	-	-
	+short positions	-	-	-	-	-	-
	- Other derivatives	12,326	259	(4,441)	613	(9,101)	470
	+long positions	42,888	260	201	634	1,719	491
	+short positions	(30,562)	(1)	(4,642)	(21)	(10,820)	(21)
Total assets		**46,657**	**649**	**10,894**	**696**	**44,392**	**973**
Total Liabilities		**46,891**	**669**	**10,930**	**705**	**44,518**	**910**
Difference (+/-)		**(234)**	**(20)**	**(36)**	**(9)**	**(126)**	**63**

2. Internal models and other methods of sensitivity analysis

The exchange rate risk generated from the trading portfolio and from the banking book is monitored through an internal VaR model, described in the section “Interest rate risk and price risk - Trading portfolio adequacy” where the values assumed by the indicator are presented in addition to the “Interest rate and pricing risk – banking book” section.

2.4 Derivative instruments

A. FINANCIAL DERIVATIVES

A.1 Trading portfolio adequacy: end of year and interim notional values

Underlying assets / Derivative type *(thousands of Euro)*	**31/12/2011**		**31/12/2010**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	507,781	-	570,525	-
a) Options	20,000	-	-	-
b) Swaps	487,742	-	570,525	-
c) Forward	39	-	-	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
2. Equity securities and share indexes	-	7,963	-	3,912
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	-	-	-	-
d) Futures	-	7,963	-	3,912
e) Other	-	-	-	-
3. Currency and gold	39,616	-	7,927	-
a) Options	-	-	-	-
b) Swaps	-	-	-	-
c) Forward	39,616	-	7,927	-
d) Futures	-	-	-	-
e) Other	-	-	-	-
4. Goods	-	-	-	-
5. Other assets	-	-	-	-
Total	**547,397**	**7,963**	**578,452**	**3,912**
Average values	**235,845**	**8,732**	**754,850**	**28,039**

A.2 Banking Book: end of year and interim notional values

A.2.1 Hedges

As at the balance sheet date, as in previous financial year, there are no hedges.

A.2.2 other derivatives

Underlying assets / Derivative type *(thousands of Euro)*	**31/12/2011**		**31/12/2010**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	653,939	-	597,528	-
a) Options	25,538	-	25,538	-
b) Swaps	628,401	-	571,990	-
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	**653,939**	**-**	**597,528**	**-**
Average values	**643,758**	**-**	**595,597**	**-**

A.3 Financial derivatives: positive gross fair value – breakdown by product

Underlying assets / Derivative type *(thousands of Euro)*	*positive fair value*			
	31/12/2011		31/12/2010	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Trading portfolio adequacy	**12,397**	**-**	**12,822**	**-**
a) Options	863	-	-	-
b) Interest rate swap	11,490	-	12,670	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	44	-	152	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - hedges	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – other derivatives	**14,878**	**-**	**11,235**	**-**
a) Options	67	-	294	-
b) Interest rate swap	14,811	-	10,941	-
c) Cross currency swaps	-	-	-	-
d) Equity swaps	-	-	-	-
e) Forwards	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**27,275**	**-**	**24,057**	**-**

A.4 Financial derivatives: *negative gross fair value – breakdown by product*

Underlying assets / Derivative type *(thousands of Euro)*	***Negative fair value***			
	31/12/2011		**31/12/2010**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
A. Trading portfolio adequacy	**14,797**	**-**	**14,930**	**-**
a) Options	-	-	-	-
b) Interest rate swap	14,778	-	14,801	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	19	-	129	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Banking book - hedges	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Banking book – other derivatives	**608**	**-**	**369**	**-**
a) Options	-	-	-	-
b) Interest rate swap	608	-	369	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**15,405**	**-**	**15,299**	**-**

A.5 OTC financial derivatives: portfolio for trading under supervision - 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 *(thousands of Euro)*		Governments and central banks	Other public authorities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1)	**Debt securities and interest rates**	**-**	**-**	**310,978**	**226,273**	**-**	**-**	**39**
	- notional value	-	-	293,871	213,871	-	-	39
	- positive fair value	-	-	863	11,489	-	-	-
	- negative fair value	-	-	14,778	-	-	-	-
	- future exposure	-	-	1,466	913	-	-	-
2)	**Equity securities and share indexes**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	- notional value	-	-	-	-	-	-	-
	- positive fair value	-	-	-	-	-	-	-
	- negative fair value	-	-	-	-	-	-	-
	- future exposure	-	-	-	-	-	-	-
3)	**Currency and gold**	**-**	**-**	**39,677**	**-**	**-**	**307**	**-**
	- notional value	-	-	39,322	-	-	294	-
	- positive fair value	-	-	44	-	-	-	-
	- negative fair value	-	-	9	-	-	10	-
	- future exposure	-	-	302	-	-	3	-
4)	**Other values**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	- notional value	-	-	-	-	-	-	-
	- positive fair value	-	-	-	-	-	-	-
	- negative fair value	-	-	-	-	-	-	-
	- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: portfolio for trading under supervision - notional values, gross positive and negative fair values for counterparties – contracts that do come under offsetting agreements

As at the balance sheet date, as in the previous financial year, there are no financial derivatives that come under offsetting agreements.

A.7 OTC financial derivatives: banking book - 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 *(thousands of Euro)*	Governments and central banks	Other public authorities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates	**-**	**-**	**665,295**	**6,280**	**-**	**-**	**-**
- notional value	-	-	647,939	6,000	-	-	-
- positive fair value	-	-	14,628	250	-	-	-
- negative fair value	-	-	608	-	-	-	-
- future exposure	-	-	2,120	30	-	-	-
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.8 OTC financial derivatives: banking book - notional values, gross positive and negative fair values for counterparties – contracts that come under offsetting agreements

As at the balance sheet date, as in the previous financial year, there are no financial derivatives that come under offsetting agreements.

A.9 Residual life of over the counter financial derivatives: notional values

Underlying / Residual life *(thousands of Euro)*		Under 1 year	From 1 to 5 years	Over 5 years	Total
A.	**Trading portfolio adequacy**	**271,462**	**176,083**	**99,852**	**547,397**
A. 1	Financial derivatives on debt securities and interest rates	231,846	176,083	99,852	507,781
A. 2	Financial derivatives on equity securities and share indexes	-	-	-	-
A. 3	Financial derivatives on exchange rates and gold	39,616	-	-	39,616
A. 4	Financial derivatives on other stocks	-	-	-	-
B.	**Banking book**	**247,330**	**394,961**	**11,648**	**653,939**
B. 1	Financial derivatives on debt securities and interest rates	247,330	394,961	11,648	653,939
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 31/12/2011		**518,792**	**571,044**	**111,500**	**1,201,336**
Total 31/12/2010		**365,326**	**634,057**	**176,597**	**1,175,980**

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

Banca Popolare dell'Alto Adige does not use internal EPE-type models validated by the regulatory authorities for the purpose of calculating the capital requirement for counterparty risk.

For operational purposes and for the assessment of capital adequacy (Internal Capital Allocation Assessment process), it uses a risk estimation model relative to the component represented by the OTC derivative transactions.

This model entails the use of in-house market risk estimation methods to determine the potential short term evolution of the positions' fair value, incorporating the benefits of market correlations and including the impacts of the guarantee agreements.

B. CREDIT DERIVATIVES

B.1 Credit derivatives: end of year and interim notional values

As at the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.2 OTC credit derivatives: positive gross fair value – breakdown by product

As at the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.3 OTC credit derivatives: negative gross fair value – breakdown by product

As at the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.4 OTC credit derivatives - Gross fair values for counterparties – Contracts that do not come under offsetting agreements

As at the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.5 OTC credit derivatives - Gross fair values for counterparties – Contracts that do come under offsetting agreements

As at the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.6 Residual maturity of the credit derivatives: notional values

As at the balance sheet date, as in the previous financial year, there are no credit derivatives.

B.7 Credit derivatives: counterparty risk / financial risk - Internal models

As at the balance sheet date, as in the previous financial year, there are no credit derivatives.

C. FINANCIAL AND CREDIT DERIVATIVES

C.1 OTC financial and credit derivatives: Net fair value and future exposure for counterparties

As at the balance sheet date, as in the previous financial year, there are no financial and credit derivatives.

Sezione 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:

- the refinancing risk in turn can be broken down into:
  - funding liquidity risk, i.e., the risk that the bank is unable to fulfil its payment commitments when they come due because of the incapacity or impossibility of procuring the necessary funds;
  - liquidity contingency risk i.e., the risk that future contingencies may require an amount of liquidity in excess of that expected, such as the non repayment of loans, the need to fund new activities, the withdrawal risk, i.e., an unexpected, greater than anticipated withdrawal of deposits by customers, the credit line utilization risk, that is an unexpected, greater than anticipated utilization of the credit facilities by the customers.
- rollover risk, i.e., the potential risk of rising loan costs due, for example, to changes in the bank's rating (internal factor) or expansions of credit spreads (market factor).
- market liquidity risk, i.e., the risk that the Bank is unable to liquidate assets, incurring losses due to market conditions. this risk is managed by the people in charge of the various trading portfolios and, consequentially, are measured, and monitored according to econometrics for market risk management.
- liquidity mismatch risk, i.e., is the risk of inconsistency between the amounts and/or timeframes between incoming and outgoing cash flow.
- margin calls liquidity risk, which refers to a situation where the Bank is required by contract to supplement warranties and/or margins for certain financial instruments.
- operational liquidity risk, i.e., the risk of not fulfilling payment obligations due to errors, violations, interruptions or damages caused by internal processes, personnel, systems or external events, despite the bank remaining solvent.

Liquidity risk management in Banca Popolare dell’Alto Adige is described in the document “Liquidity Policy”, reviewed, and approved annually by the Board of Directors. In detail it defines:

- The organizational model, that assigns roles and responsibilities 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 organizational processes and interventions undertaken to restore standard conditions in liquidity management in addition to providing a description of indicators to determine any critical situations.

In particular, the policy concerns the innovations in matters of governance and liquidity risk management contained in Bank of Italy Circular Letter no. 263 of 27 December 2006 and subsequent revisions, which in turn incorporates the guidance enacted by the Committee of European Banking Supervisors (CEBS) and by the Basel Committee on Banking Supervision. These rules and regulations are based on the principle that an adequate governance and liquidity risk management system, integrated with the overall risk management system, is fundamental for maintaining the stability of the individual banks and of the market. This entails rules in matters of organization and internal controls, as well as the adoption of precise management instruments and public disclosure obligations, which although proportional to the operational size, to the organizational complexity, and to the type of the activities performed by the individual banks, require a significant commitment on the part of the latter.

The management of liquidity risk by Banca Popolare dell'Alto Adige is allocated to the Treasury Service, which operates under the direct management of financial services central management. The definition and monitoring of compliance with operational limits, instead, lies with the Risk Management Service, structurally separated, and hierarchically subordinate to the Corporate Affairs Unit. General Management is responsible for governance over liquidity, both as regards compliance with the limits defined and for as regards 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.

The containment of exposure to liquidity risk is pursued primarily through a structured set of guidelines, operational decisions, and organizational control, the most relevant of which are:

- ensure the capacity to meet foreseen and unforeseen cash payment commitments by maintaining a sustainable ratio between incoming and outgoing cash flows;
- maintain an adequate ratio between overall liabilities and medium/long term assets aimed at avoiding pressure on current and prospective sources in the short short-term;
- centralize liquidity management;
- diversify the sources of funding in terms of deposit instruments, counterparties, in geographic terms, and currency;
- keep a sufficient stock of assets on hand that can be easily liquidated and used to guarantee loan transactions or that are directly disposable in stressful situations; 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;
- manage the short-term liquidity in compliance with the regulatory framework;
- issue financial instruments so as to maintain prudent capital ratio targets;
- have and maintain an IT system suitable to monitor and manage liquidity.

Measurement and control of operational liquidity and structural liquidity were defined by means of a system of indicators, limits, and reports, including daily. In particular, a so-called maturity ladder was prepared; that is, surveillance system for the net financial position which allows the balances and therefore the imbalances between expected inflows and outflows over predefined time bands and, through the formation of cumulative imbalances, the calculation of the net financial requirement (or surplus) in the time horizon considered.

To measure the Bank's liquidity risk, the so-called Liquidity-at-Risk (LaR) model is used; this is based on observing the "independent" negative net flows of liquidity – taking into consideration the historical series of the last 5 years – applying the Extreme-Value-Theory, which allows accuracy to b improved 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).

Other fundamental liquidity risk management functions regard conducting a stress test program aimed at evaluating the bank's vulnerability to exceptional but plausible events. In particular stress testing is performed in terms of scenario analysis, consistent with the definition of liquidity risk adopted and attempting to simulate the behaviour of the bank's cash flow under unfavourable conditions making subjective assumptions based on the bank's experience and/or instructions provided by supervisory regulations and guidelines. The risk factors involved in the test include for example:

- increasing demand withdrawals
- revocation/non-renewal or reduction of credit lines received
- increase haircut of readily liquidatable securities

- non/limited roll-over of maturing loans and renewing lines of credit/credit openings o
- reduction in rollover of interbank deposits
- reduction in rollover of interbank deposits
- revocation/non-renewal or reduction of credit lines received
- increase utilization of credit lines granted
- increase haircut of readily liquidatable securities
- increasing haircut on cash loans

Moreover, the organizational layout of the structures and functions responsible for managing liquidity and the relative controls and contingency plans to be implemented in times of stress or crisis (CFL, Contingency Funding Plan) are clearly defined in the policy; a contingency is declared when there is problematic progression in a predefined series of exogenous and endogenous factors.

As indicated by the relevant legislation mentioned above, a "Policy on the internal transfer price system" (TIT) of funds was also defined and introduced in 2011. The system sets the following objectives:

- the transfer of the interest rate and liquidity risks from the sales network to the treasury unit, so as to guarantee the centralized valuation and management of the bank's exposure to these types of risk
- the transfer of the fees resulting from the transformation of maturities from the sales network to the treasury unit
- the possibility of precisely assessing the actual fee at the level each individual sales unit and each individual customer relationship.

The internal transfer rates on which the system is based, in addition to being differentiated by maturity (multiple TIT), and being based on market rates effectively tradable by the treasury, guarantee revenue margins for the operating units consistent with the bank's overall profitability, and are all composed of several components with different purposes:

- the "interest rate" (risk free TIT) component that transfers the interest rate risk from the sales unit to the treasury unit;
- the "liquidity" component (liquidity TIT), which takes into account the refinancing cost that the bank must face in the interbank market and its capacity to assume the risk set out in the "Risk Policy" and in the "Liquidity Policy";
- the *"bonus-malus"* component, as an instrument to manage any commercial incentives.

Finally, during 2011, the analysis of the Bank's liquidity situation did not indicate any situations of short or long term stress, 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: Euro

Items / Timescales *(thousands of Euro)*	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	Unspecified life
Cash assets	**1,391,937**	**2,155**	**7,652**	**171,220**	**125,396**	**151,928**	**303,830**	**1,416,824**	**1,481,016**	**41,748**
A.1 Treasury securities	-	-	-	-	30,168	9,923	27,062	31,476	-	-
A.2 Other debt securities	-	-	2,508	-	9,348	12,526	4,903	241,294	58,351	-
A.3 UCITS units	58,812	-	-	-	-	-	-	-	-	-
A.4 Loans	1,333,125	2,155	5,144	171,220	85,880	129,479	271,865	1,144,054	1,422,665	41,748
- Banks	8,775	-	-	1,663	-	-	-	-	-	41,748
- Customers	1,324,350	2,155	5,144	169,557	85,880	129,479	271,865	1,144,054	1,422,665	-
Cash liabilities	**2,043,803**	**197,621**	**38,188**	**69,533**	**179,642**	**204,170**	**486,561**	**1,513,630**	**67,884**	**-**
B.1 Deposits and current accounts	1,980,841	50,651	25,233	15,744	47,641	81,159	61,061	1,435	-	-
- Banks	66,930	45,006	20,086	5,000	-	9,053	-	-	-	-
- Customers	1,913,911	5,645	5,147	10,744	47,641	72,106	61,061	1,435	-	-
B.2 Debt securities	351	20,158	12,684	12,682	73,217	84,718	387,897	1,283,853	66,870	-
B.3 Other liabilities	62,611	126,812	271	41,107	58,784	38,293	37,603	228,342	1,014	-
Off-balance-sheet transactions	**(181,043)**	**24,982**	**-**	**716**	**(24,463)**	**1,832**	**2,736**	**18,703**	**180,628**	**-**
C.1 Financial derivatives with exchange of principal	-	24,464	-	142	(25,332)	408	(39)	204	37	-
- Long positions	-	36,743	-	142	128	6,622	486	2,575	37	-
- Short positions	-	(12,279)	-	-	(25,460)	(6,214)	(525)	(2,371)	-	-
C.2 Financial derivatives without exchange of principal	(1,563)	-	-	-	-	-	-	-	-	-
- Long positions	13,215	-	-	-	-	-	-	-	-	-
- Short positions	(14,778)	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	(192,736)	518	-	-	-	1,392	650	15,569	174,166	-
- Long positions	-	2,130	-	-	-	1,392	650	15,569	174,166	87
- Short positions	(192,736)	(1,612)	-	-	-	-	-	-	-	(87)
C.5 Financial guarantees issued	13,256	-	-	574	869	32	2,125	2,930	6,425	-

Illustration of financial assets that were subject to securitization transactions where the bank undersigned all liabilities issued by SPV (so-called self-securitization) upon issue.

In November 2008 and in September 2011, the Bank carried out two securitization transactions in which, upon issue, it undersigned all the liabilities issued by SPV. Financial assets subject to securitization transactions are listed below:

	VOBA Finance 2 S.r.l.	VOBA Finance 3 S.r.l.
Bank interest in the SPV	0%	0%
Loans disposal date	01/11/2008	01/09/2011
Type of loans transferred	Mortgage loans	Mortgage loans
Status of loans transferred	Performing	Performing
Guarantees on loans transferred	Mortgages at first to sixth degree	Mortgages at first to sixth degree
Geographic area of loans transferred	Northern Italy	Northern Italy
Business of debtors transferred	Private individuals and companies	Private individuals and companies
Number of loans transferred	1,845	3,188
Price of loans transferred (Euro)	Euro 304,128,167.83	Euro 387,269,164.82
Par value of loans transferred including accruals (Euro)	Euro 304,128,167.83	Euro 387,269,164.82

The characteristics of the subscribed ABS securities relative to the two self-securitizations are shown below:

VOBA Finance 2 S.r.l.			
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**

VOBA Finance 3 S.r.l.			
Tranche	**Fitch/Moody's rating**	**Percentage**	**Total (in Euro)**
Class A	AAA/Aaa	25.73%	102,500,000
Class B	A/A2	59.28%	236,100,000
Class C	-	14.99%	59,700,000
Total		**100.00%**	**398,300,000**

2. Time distribution by residual contract duration of financial assets and liabilities. Currency: U.S.A. Dollar.

Items / Timescales *(thousands of Euro)*	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	Unspecified life
Cash assets	**632**	**39**	**40**	**681**	**1,458**	**686**	**-**	**4**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	4	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	632	39	40	681	1,458	686	-	-	-	-
- Banks	599	-	-	-	-	-	-	-	-	-
- Customers	33	39	40	681	1,458	686	-	-	-	-
Cash liabilities	**16,199**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	16,199	2	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	16,199	2	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**4,317**	**9,120**	**(147)**	**(5,968)**	**5,004**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	(26,597)	9,120	(147)	24,946	5,004	-	-	-	-
- Long positions	-	3,795	9,120	-	24,969	5,004	-	-	-	-
- Short positions	-	(30,392)	-	(147)	(23)	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	30,914	-	-	(30,914)	-	-	-	-	-
- Long positions	-	30,914	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	(30,914)	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

3. Time distribution by residual contract duration of financial assets and liabilities. Currency: Swiss franc

Items / Timescales *(thousands of Euro)*	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	Unspecified life
Cash assets	**4,077**	**197**	**445**	**5,722**	**15,817**	**9,823**	**-**	**6,023**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	4,077	197	445	5,722	15,817	9,823	-	6,023	-	-
- Banks	553	-	-	-	-	-	-	-	-	-
- Customers	3,524	197	445	5,722	15,817	9,823	-	6,023	-	-
Cash liabilities	**2,787**	**2,470**	**12,343**	**3,706**	**12,350**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	2,787	2,470	12,343	3,706	12,350	-	-	-	-	-
- Banks	-	2,470	12,343	3,706	12,350	-	-	-	-	-
- Customers	2,787	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**4**	**(9,105)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	4	(9,105)	-	-	-	-	-	-	-
- Long positions	-	1,626	-	-	93	-	-	-	-	-
- Short positions	-	(1,622)	(9,105)	-	(93)	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

4. Time distribution by residual contract duration of financial assets and liabilities. Currency: Japanese Yen

Items / Timescales *(thousands of Euro)*	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	Unspecified life
Cash assets	**982**	**389**	**425**	**1,020**	**4,621**	**3,238**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	982	389	425	1,020	4,621	3,238	-	-	-	-
- Banks	816	-	-	-	-	-	-	-	-	-
- Customers	166	389	425	1,020	4,621	3,238	-	-	-	-
Cash liabilities	**-**	**1,297**	**4,991**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	-	1,297	4,991	-	-	-	-	-	-	-
- Banks	-	1,297	4,991	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**(3,144)**	**-**	**(1,297)**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	(4,441)	-	-	-	-	-	-	-	-
- Long positions	-	201	-	-	-	-	-	-	-	-
- Short positions	-	(4,642)	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	1,297	-	(1,297)	-	-	-	-	-	-
- Long positions	-	1,297	-	-	-	-	-	-	-	-
- Short positions	-	-	-	(1,297)	-	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

5. Time distribution by residual contract duration of financial assets and liabilities. Currency: other

Items / Timescales *(thousands of Euro)*	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	Unspecified life
Cash assets	**621**	**28**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	621	28	-	-	-	-	-	-	-	-
- Banks	621	-	-	-	-	-	-	-	-	-
- Customers	-	28	-	-	-	-	-	-	-	-
Cash liabilities	**1,501**	**100**	**-**	**505**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	1,501	100	-	505	-	-	-	-	-	-
- Banks	15	19	-	505	-	-	-	-	-	-
- Customers	1,486	81	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**1,343**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	1,343	-	-	-	-	-	-	-	-
- Long positions	-	1,365	-	-	-	21	-	-	-	-
- Short positions	-	(22)	-	-	-	(21)	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-

Sezione 4 Operational risks

<u>QUALITATIVE INFORMATION</u>

A. General considerations, operating risk management processes and measurement methods

In line with the supervisory provisions, operational risk is defined as the risk of incurring losses due to errors, violations, interruptions, exogenous events or damages deriving from malfunctions in the internal processes or the unsuitability of people and/or systems. Operational risks include, among other things, the ensuing losses from theft and fraud, human errors, interruptions of operations, the unavailability of systems, executions of transactions, breaches of contract, data processing, damage to real property, and natural catastrophes.

The risk management function guarantees that these risks are monitored, drawing on the following guidance:

- prevent the occurrence or reduce the probability of events occurring that could potentially generate operating losses, through the appropriate legal, organizational, procedural and training activities;
- attenuate the expected effects of these events;
- enhance the overall operational efficiency;
- protect the bank's reputation and image.

Monitoring and measuring of operational losses

The most advanced method for measuring the operational risk profile involves the combined use of information regarding historical internal and external operational losses, with qualitative factors deriving from scenario analysis and from assessments relative to the control systems and to the business environment.

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. These reports originating from the network and from the internal organization units are integrated with losses deriving from legal action and customer complaints; both types of events are systematically recorded and monitored as they evolve on special internal databases.

Whenever, subsequent to a legal and accounting analysis, facts emerge that imply probable future disbursements of economic resources, appropriate precautionary allocations of funds are made to the provisions for risks and charges, in addition to implementing settlement polices.

The information gathered from the internal and external databases (DIPO), the detailed analysis of the most significant loss events according to their impact and/or frequency of occurrence, the countermeasures already implemented or to be implemented are discussed quarterly within the Operational risk Committee and the Risk Committee. The main sources of operational risk manifestation are identified in those meetings together with potential critical situations, the suitability of the existing operating processes with regard to the potential sources of loss, the action and measures to be taken with a view to preventing and mitigating these sources, and the quality of insurance hedges. All the results of analyses and the decisions made are then submitted to the Executive Council and the Board of Directors.

As already indicated, where deemed expedient, certain categories of operational risks are mitigated through the stipulation of ad hoc insurance contracts. The Bank also has a sophisticated business continuity plan, operationally reviewed and audited annually; it establishes principles, objectives, and procedures aimed at reducing the damage resulting from accidents and catastrophes to a level deemed acceptable.

For the purpose of calculating the asset requirements with reference to operating risk, the Bank adopts the Basic Indicator Approach in compliance with the regulatory provisions of Basel II. These provisions anticipate that said requirement be determined applying a regulatory weighting factor to the mean banking margin of the last 3 financial years, identified as a significant indicator of the banking activity volume.

Managing the control processes

Operating risk management is guaranteed by the Bank through:

- 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 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 organizational units, has been operative since 2005. The system is governed by the line controls manual and involves the use of customized checklists for each organizational unit. In this context, Internal Auditing department obligations involve execution control, efficiency testing, and onsite verification of all line controls, along with their constant updating as organizational 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.

QUANTITATIVE INFORMATION

Internal reports in 2011 recorded 188 new reports with a gross loss of 328,818 Euro, of which 69.1% of cases were due to internal or external fraud (amounting to 26.4% of the value), 10.1% from processing errors (43.9% of the value), 20.7% due to other factors, forged banknotes, system errors, legal disputes, etc. (29.6% of the value).

By way of comparison, 188 events occurred in 2010, corresponding to gross losses equal to 388,879 Euro.

12 cases were reported to the DIPO in 2011 (reporting threshold 5,000 Euro) with a gross loss of 220,774 Euro.

PART F INFORMATION ON CAPITAL

Sezione 1 Parent Bank shareholders' equity

A. QUALITATIVE INFORMATION

Capital adequacy is governed by the strategic planning activity, within which the optimum size of the regulatory assets are defined in conformity with applicable provisions.

Banca Popolare dell'Alto Adige assigns overriding importance to capital adequacy, with particular reference to the governance of operations and risk control. The growth strategy and objectives are defined in relation to the capacity to create value within a context of sufficient profitability, capital strength, and liquidity.

Continuous compliance with capital requirements is monitored regularly and is assumed as a constraint during planning, representing an inviolable condition for banking activity.

The governance of current and anticipated capital strength therefore takes into account both the regulatory and operational constraints.

Capital adequacy over time therefore reflects both the capital requirements correlated with the multiyear objectives set in the strategic plan. In the process of defining the annual objectives for the annual budget, a compatibility test is performed with the level of capitalization, as a function of the expected dynamics of the aggregates balance-sheet and income statement items.

Capital adequacy is the result of several managerial decisions, such as the dividends policy, the definition of extraordinary financial transactions (share capital increases, the issuing of convertible loans, the optimization of assets, etc.) as well as the loan policy in relation to the riskiness of the entrusted counterparties.

Compliance with the capital base levels is monitored on a quarterly basis, each time identifying the main deviations in order to arrange for necessary guidance and control activities on the aggregate balance sheet items.

The bank's shareholders' equity consists of the sum of the balances for the following liability items:

- Share capital net of the equivalent value of the treasury shares bought back
- Share premiums
- Reserves
- Valuation reserves
- Profit for the year

Banca Popolare dell'Alto Adige's shareholders' equity, including the valuation allowances and provisions and of the net profit for the year, as at 31 December 2011, amounts to 542.2, an increase over the previous year's figure of 537.9 million.

Excluding the profit of 18.8 million for the year, and making allowance for the payment of 10.4 million in dividends for the 2010 financial year, shareholders' equity increased 2.9 million, as a result of the 7 million increase of legal and extraordinary reserves and of the negative variation of the valuation reserves by 4.1 million.

B. QUANTITATIVE INFORMATION

B.1 Parent bank's shareholders' equity assets: breakdown

Items/Amounts *(thousands of Euro)*	31/12/2011	31/12/2010
1. Capital	**69,341**	**69,341**
2. Share premiums	**145,773**	**145,773**
3. Reserves	**239,464**	**232,426**
- from profit	239,464	232,426
a) legal	104,800	103,000
b) extraordinary	89,930	84,692
c) treasury shares	4,183	4,183
d) other	40,551	40,551
- other	-	-
4. Capital instruments	**-**	**-**
5. (Treasury shares)	**-**	**-**
6. Valuation reserves	**68,801**	**72,932**
- Available-for-sale financial assets	(5,648)	(1,517)
- Tangible assets	-	
- 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	74,449	74,449
7. Profit (loss) for the year	**18,515**	**17,439**
Total	**541,894**	**537,911**

B.2 Valuation reserves of financial assets available for sale: breakdown

Asset/Value *(thousands of Euro)*	31/12/2011		31/12/2010	
	Positive reserve	**Negative reserve**	**Positive reserve**	**Negative reserve**
1. Debt securities	225	(3,282)	10	(1,503)
2. Equities	-	(12)	-	-
3. UCITS units	293	(2,872)	240	(265)
4. Loans	-	-	-	-
Total	**518**	**(6,166)**	**250**	**(1,768)**

B.3 Valuation reserves of financial assets available for sale: annual changes

(thousands of Euro)		Debt securities	Equities	UCITS units	Loans
1.	**Opening balance**	**(1,493)**	**-**	**(25)**	**-**
2.	**Positive variations**	**361**	**-**	**212**	**-**
2.1	Increases in fair value	247	-	212	-
2.2	Reallocation to income statement				
	of negative reserves	112	-	-	-
	- from impairment	-	-	-	-
	- from disposals	112	-	-	-
2.3	Other changes	2	-	-	-
3.	**Negative variations**	**1,924**	**12**	**2,767**	**-**
3.1	Decrease in fair value	1,744	12	2,767	-
3.2	Impairment adjustments	-	-	-	-
3.3	Reallocation to income statement	-	-	-	-
	of positive reserves: from disposals	180	-	-	-
3.4	Other changes	-	-	-	-
4.	**Closing balance**	**(3,056)**	**(12)**	**(2,580)**	**-**

Sezione 2 Capital and adequacy ratios

Capital and adequacy ratios are calculated in conformity with the Bank of Italy provisions in the Circular Letter no. 263 of 27 December 2006 (“New regulations for the prudential supervision of banks”) and with the Circular Letter no. 155 of 18 December 1991 (“Instructions for compiling reports on regulatory capital and on prudential ratios”), and subsequent revisions.

During 2009, the European community institutions approved various measures (directives 2009/27/EC, 2009/83/EC and 2009/111/EC, known, comprehensively, as “CRD II”) tending, on one hand, to strengthen the prudential European regulation in some of the profiles that were revealed to be weak by the 2007-2008 financial crisis, on the other hand, to resolve the interpretive uncertainties that emerged in the first years of regulation's application (directives 2006/48/EC and 2006/49/EC).

With the recent updates of the Circular Letter no. 263 of 27 December 2006, some of these innovations are applied in Italy for aspects regarding banks and banking groups, also incorporating the relevant guidelines later enacted by the Committee of European Banking Supervisors (CEBS).

2.1 Regulatory Capital

A. Qualitative information

Pursuant to Circular Letter no. 263 of 27 December 2006, Regulatory capital consists of the sum of the tier I capital, admitted in the calculation without limitation, and of the Tier II capital, which is admitted within the maximum limits of the tier I capital. Equity investments, innovative and non innovative share capital instruments, hybrid capital instruments, and subordinated assets, held in other banks and holding companies are deducted from these aggregates.

Also deducted are equity investments in insurance companies and the subordinated liabilities issued by the companies themselves, if calculated by the issuer for the purpose of drafting the balance-sheet, as well as additional facts related to the calculation of the capital requirements.

Specific adjustments (the so-called “prudential filters”) having the objective of protecting the quality of the regulatory capital and of reducing the potential volatility associated with the adoption of the new international accounting standards IAS/IFRS are applied in both Tier I capital and in the Tier II capital.

The supervisory regulations anticipated that certain balance-sheet components recognized in the financial statements of the banking and financial intermediaries based on the international accounting standards be considered for the purpose of calculating regulatory capital within determined limits, according to rules agreed to on an international level (the so-called prudential filters).

In particular, as regards the revaluation reserves relative to the debt securities in the “Available-for-sale financial assets” portfolio, the supervisory provisions anticipate two options:

a) with regards to the securities issued by Central administrations of Countries belong to the European Union included in the “- Available-for-sale financial assets”, completely neutralize both the pluses and the minuses, as if the securities were measured at cost.
b) fully deduct the capital loss from Tier 1 capital and partially include the capital gains in Tier 2 capital, according to an “asymmetrical” approach.

The sub b) option– adopted by the Bank – allows, among other things, the continuous discounting of the negative assessments, thus preventing sudden drops (*cliff effect*) when the reductions of value begin to resemble impairment. This approach was deemed more suitable for the Bank's operational characteristics, also taking into account possible instances of turbulence in the markets such as those recorded for government securities during the year, where this “asymmetric” mechanism, through the deduction of the capital loss, risks causing unjustified volatility of regulatory capital as a result of sudden variations in the performance of the securities not related to enduring changes of the issuers credit rating.

1. Tier I capital

Banca Popolare dell'Alto Adige's Tier I capital is composed entirely of paid-in share capital, reserves (including share premiums) and profit for the period (in accordance with the distribution proposal), net of intangible assets, recorded in the financial statements under item 120 in the assets, and of any treasury shares on hand.

Banca Popolare dell'Alto Adige has neither innovative share capital instruments, nor hybrid equity instruments.

2. Tier II capital

Banca Popolare dell'Alto Adige's Tier II capital includes the valuation reserves.

3. Tier III capital

There are no Tier III capital components.

B. QUANTITATIVE INFORMATION

(thousands of Euro)	31/12/2011	31/12/2010
A. Tier I capital before application of prudential filters	**418,218**	**409,455**
B. Tier I capital prudential filters:	(6,166)	(1,768)
B.1 Positive IAS/IFRS prudential filters (+)	-	-
B.2 Negative IAS/IFRS prudential filters (-)	(6,166)	(1,768)
C. Tier I capital gross of deductible elements (A+B)	**412,052**	**407,687**
D. Elements to be deduced deductible from Tier I capital	-	-
E. Total Tier 1 capital (C-D)	**412,052**	**407,687**
F. Tier II capital before application of prudential filters	**75,226**	**74,700**
G. Tier II capital prudential filters:	(518)	(125)
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	(518)	(125)
H. Tier II capital gross of deductible elements (F+G)	**74,708**	**74,575**
I. Elements deductible from Tier II capital	-	-
L. Total Tier 2 capital (H-J)	**74,708**	**74,575**
M. Elements deductible from total Tier I and Tier II capital		
N. Regulatory Capital (E + L - M)	**486,760**	**482,262**
O. Tier 3 capital	-	-
P. Regulatory capital including Tier 3 (N+O)	**486,760**	**482,262**

2.2 Capital adequacy

A. QUALITATIVE INFORMATION

Based on prudent supervisory provisions, the overall capital requirement is equal to the sum of the capital requirements specified for credit, counterparty, market, and operational risks.

The relevant “standard methods” were adopted for the credit, counterparty, and market risks. The basic method was used for the operational risks.

B. QUANTITATIVE INFORMATION

Based on Chapter 2, paragraph 7, Part F, of Circular Letter 262 (“Bank Financial Statements: drafting formats and rules”), in the standard method, the “unweighted amounts” correspond to the exposure that takes into account the prudential filters, the risk mitigation techniques, and the loan conversion factors (E* in the supervisory reports multiplied by the loan conversion factors in case of the guarantees and commitments).

In items C.1, C.2, and C.3, the weighted risk assets are determined to be the total capital requirements (item B.6) multiplied by 12.5 (the inverse of the minimum obligatory coefficient equal to 8%).

Banca Popolare dell'Alto Adige complies with the minimum obligatory capital requirements anticipated for banks not belonging to banking groups.

Category/Values	Unweighted amounts		Weighted/required amounts	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**5,731,233**	**5,344,842**	**4,146,994**	**3,672,911**
1. Standard method	5,731,233	5,344,842	4,146,994	3,672,911
2. Method based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitizations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
A.1 Credit risk and counterparty risk			331,760	293,833
B.2 Market risk			3,751	6,995
1. Standard method			3,751	6,995
2. Internal models			-	-
3. Concentration Risk			-	-
B.3 Operational risk			26,757	26,173
1. Basic method			26,757	26,173
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)			362,268	327,001
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Weighted risk assets			4,528,344	4,087,511
C.2 Tier 1 capital/Weighted risk assets (Tier I capital ratio)			9.10%	9.97%
C.3 Regulatory capital including Tier 3/ Weighted risk assets (Total capital ratio)			10.75%	11.80%

PART G BUSINESS COMBINATIONS

Sezione 1 Transactions performed during the year

No business combinations were transacted during the financial year

Sezione 2 Business combinations were transacted after the close of the financial year

There were no significant business combinations transacted after the close of the financial year

Sezione 3 Retrospective adjustments

No retrospective adjustments were made during the financial year.

PART H TRANSACTIONS WITH RELATED PARTIES

1. Information on the remuneration of directors, statutory auditors, and key management personnel.

The table below summarizes the remuneration paid to directors, to statutory auditors, and key management personnel. The remuneration paid is governed by the remuneration policies approved by the shareholders' meeting decisions

(thousands of Euro)	**31/12/2011**
Directors	715
Statutory Auditors	310
Key management personnel	2,780
Total	**3,869**

Remuneration of key management personnel ***(thousands of Euro)***	**31/12/2011**
Key management personnel	
of which	
short-term benefits	2,420
Post-retirement benefits	244
other long-term employee benefits	116
Total	**2,780**

2. Disclosure on transactions with related parties

Based on the specifications of IAS 24, applied to the bank's organizational and governance structure, the following natural and juridical persons are considered related parties:

- subsidiaries, companies over which the Bank directly or indirectly exercises control, as defined by IAS 27;
- associates, companies in which the Bank directly or indirectly exercises significant influence, as defined by IAS 28;
- joint ventures, companies over which the Bank directly or indirectly exercises joint control, as defined by IAS 31;
- the key management personnel and the supervisory bodies, that is to say the Directors, the Statutory Auditors, the Chief Executive Officer, the Deputy Chief Executive Officer;
- the other related parties, which include:
  - close relatives – common-law spouses, children, children of common-law spouses, and dependants of subjects or of the subject's common law spouse– of Directors, Statutory auditors, Chief the Executive Officer and the Deputy Chief Executive Officer of the bank;
  - subsidiaries, subject to joint control, or subject to significant influence by Directors, Statutory Auditors, the Chief Executive Officer, and the Deputy Chief Executive Officer of the bank. as well as their close relatives, as previously defined.

The table shows the capital and income relationships with the related parties indicated in the previous paragraphs. The impacts of these transactions on each financial statement items in percent are also provided.

Transactions with subsidiaries

(thousands of Euro)	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31/12/2011	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**
2011	167	-	-	-	1	-
Impact	0.11%	-	-	-	0.00%	-

Transactions with associated companies

(thousands of Euro)	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31/12/2011	-	-	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**
2011	-	-	0	-	0	-
Impact	-	-	0.00%	-	0.00%	-

Transactions with Directors, Auditors who are member of General Management and Central Management

(thousands of Euro)		Directors		Statutory Auditors		Strategic managers		Total
		Direct	Indirect	Direct	Indirect	Direct	Indirect	
Agreed credit limit		3,232	104,379	1,046	15,533	215	258	124,664
Commitments		1,303	48,516	971	9,499	178	207	60,673
	Impact	*0.03%*	*0.98%*	*0.02%*	*0.19%*	*0.00%*	*0.00%*	*1.23%*
Credit commitments		-	23,182	46	235	-	-	23,463
	Impact	-	*6.32%*	*0.01%*	*0.06%*	-	*0.00%*	*6.39%*
Direct deposits		1,171	13,767	70	1,796	1,964	1,850	20,618
	Impact	*0.03%*	*0.32%*	*0.00%*	*0.04%*	*0.05%*	*0.04%*	*0.49%*
Indirect deposits		303	12,029	35	43	17	417	12,844
	Impact	*0.02%*	*0.63%*	*0.00%*	*0.00%*	*0.00%*	*0.02%*	*0.67%*
Interest Receivable		38	1,456	25	320	1	5	1,845
	Impact	*0.02%*	*0.82%*	*0.01%*	*0.18%*	-	*0.00%*	*1.03%*
Interest paid		25	182	1	15	1	50	275
	Impact	*0.05%*	*0.34%*	-	*0.03%*	*0.00%*	*0.10%*	*0.52%*
Commissions and other income		6	354	3	45	0	3	412
	impact	*0.01%*	*0.52%*	*0.00%*	*0.07%*	-	*0.00%*	*0.60%*

PART I SHARE-BASED PAYMENT AGREEMENTS

As at the balance sheet, there are no share-based payment arrangements.

PART L SEGMENT REPORTING

The disclosure concerning operating segments was prepared in accordance with the specifications of IFRS 8, which came into force starting from in the 2009 financial year, which anticipates the presentation of the disclosures consistent with the methods adopted by Bank management for making operational decisions. Therefore, the operating segments indentified and the disclosure in this paragraphs based on the internal reporting used by company management for the purpose of allocating resources to the various segments and for analyzing the respective performance.

Criteria for identifying combination of the operating segments

The identification and combination of the operating segments in conformity with attachment IFRS 8 was conducted, unlike that anticipated by IAS 14, by indentifying the operating segments in accordance with the "operational approach" used by management when measuring performance:

- Private individuals;
- Firms;
- Finance (asset portfolio and cash management).

A residual segment in which the amounts not specifically referring to the business segments were specifically attributed to the other business segments was also identified.

The segments were identified based on the similarity of the economic characteristics as well as of the similarity of the sector with reference to the nature of the products and processes, the type of customers, the distribution methods, and the regulatory context.

The following sectors were identified for the purpose of geographical segmentation.

- Trentino-Alto Adige;
- Veneto and Friuli Venezia Giulia

For the purpose of reconciling the sector results with the Bank's profit, it is noted that the measuring criteria for the sector disclosure reported in this section are consistent with those used in the internal reports, as required by the accounting standards of reference and they are also consistent with the accounting standards used for the preparation of the financial statements for the financial year, in that they are deemed more suitable for the purpose of attaining a true and fair view of the company's financial position.

Analysis by business segments: income statement figures

(thousands of Euro)	Private individuals	Firms	Finance	Other	Total
Interest margin	49,629	59,893	4,707	2,626	116,855
Net commissions	21,238	36,863	60	10,146	68,308
Financial margin	-	-	(4,738)	-	(4,738)
Banking margin	**70,867**	**96,757**	**28**	**12,772**	**180,424**
Net adjustments for value impairment	(2,287)	(17,262)	-	4	(19,545)
Net income from financial management	**68,580**	**79,495**	**28**	**12,776**	**160,879**
Administrative costs	-	-	-	(127,875)	(127,875)
Provisions for risks and charges	(279)	(575)	(38)	-	(892)
Amortization and depreciation on tangible and intangible assets	-	-	-	(9,771)	(9,771)
Other operating costs/income	-	-	-	10,737	10,737
Profit (Loss) on shareholdings / from disposal of investments				371	371
Profit (Loss) from current operations before tax	**68,301**	**78,920**	**(10)**	**(114,133)**	**33,450**

Analysis by business segments: balance sheet figures

(thousands of Euro)	Private individuals	Firms	Finance	Other	Total
Due from banks			172,171	-	172,171
Loans to customers	1,499,052	3,093,605	204,981	-	4,797,638
Equity shares			376,488	-	376,488
Due to banks			670,107	-	670,107
Direct deposits	3,212,015	525,232	450,253	75,504	4,263,005
- Due to customers	1,658,162	493,190	148,553	14,487	2,314,392
- Securities issued	1,553,854	32,042	301,700	61,017	1,948,613
Indirect deposits	1,251,878	14,157	-	10,690	1,276,726

It is noted that the operating income and the company is activities are performed in Italy, confirming that the company is rooted in the reference territory, a factor of strategic significance in company development. The analysis of balance-sheet and income data by geographical area is provided below.

Analysis by geographical area: balance sheet figures

(thousands of Euro)	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Due from banks	172,171	-	172,171
Loans to customers	3,723,762	1,073,876	4,797,638
Equity shares	376,488	-	376,488
Due to banks	670,107	-	670,107
Direct deposits	3,429,930	833,074	4,263,005
- Due to customers	1,846,263	468,129	2,314,392
- Securities issued	1,583,667	364,945	1,948,613
Indirect deposits	974,690	302,036	1,276,726

Analysis by geographical area income statement figures

(thousands of Euro)	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Interest margin	95,012	21,843	116,855
Net commissions	54,160	14,148	68,308
Financial margin	(4,738)	-	(4,738)
Banking margin	**144,433**	**35,991**	**180,424**
Net adjustments for value impairment	(16,417)	(3,128)	(19,545)
Net income from financial management	**128,016**	**32,863**	**160,879**
Administrative expenses	(105,733)	(22,142)	(127,875)
Provisions for risks and charges	(692)	(200)	(892)
Amortization and depreciation on tangible and intangible assets	(7,018)	(2,753)	(9,771)
Other operating costs/income	7,561	3,176	10,737
Profit (Loss) on shareholdings / from disposal of investments	371		371
Profit (Loss) from current operations before tax	**22,506**	**10,944**	**33,450**

ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

Disclosure in conformity with art. 149 – duodenum of Regulation no. 11971 of 14 May 1999 (Issuers' Regulation)

The fees of the 2011 financial year for auditing services and for those other than auditing paid to the Independent Auditors or to companies within its network are shown below.

Type of service *(thousands of Euro)*	**Party that performed the service**	**Addressee**	**Remuneration (1)**
Independent Audit	BDO S.p.A.	Banca Popolare dell'Alto Adige	48
Certification services	BDO S.p.A.	Banca Popolare dell'Alto Adige	41
Total			89

The values do not include VAT and accessory expenses.

Financial Statements of Subsidiary Voba Invest S.r.l. in liquidation

VOBA Invest S.r.l. in liquidation

Voba Invest S.r.l. - Single shareholder company in liquidation
Office in Bolzano (BZ) Italy, Via Siemens n. 18
Share capital of 30,000 Euro, fully paid in
Listed in the Bolzano Business Register
Tax code 03340170277
A company under the management and coordination of
by Banca Popolare dell'Alto Adige Soc. Coop. p.a. with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2011

BALANCE SHEET

(amounts in Euro)	**31/12/2011**		**31/12/2010**	
ASSETS				
A. Share capital not paid in		**0**		**0**
B. Fixed assets				
I. Intangible assets				
of which granted in financial lease			0	
7. Other	0			5,035
Total		**0**		**5,035**
II. Tangible assets				
1. Land and buildings	461,545			520,766
4. Other assets	1,048			1,337
5. Work in progress and advances	0			0
Total		**462,593**		**522,103**
III. Financial investments				
1. Shareholdings in:				
a. subsidiaries	863,599			49,599
b. associates	3,817,251			3,844,691
d. other companies	2,935,000			3,050,000
	7,615,850			6,944,290
2. Loans:				
a. to subsidiaries	1,275,668			1,952,268
of which receivable within the next financial year			0	
b. to associates	3,359,716			8,645,966
of which receivable within the next financial year			0	
	4,635,384			**10,598,234**
3. Other securities	100			100
4. Treasury shares	0			0
total book value of			0	
Total		**12,251,334**		**17,542,624**
Total fixed assets (B)		**12,713,927**		**18,069,762**
C. Current assets				
I. Inventories				
4. Finished products and goods	508,505			1,431,847
Total		**508,505**		**1,431,847**
II. Loans				
1. to customers	84,457			621
due after the next financial year			0	
4.bis Current tax assets	18,501			271,637
due after the next financial year			0	
5. to others	247,869			244,848
due after the next financial year			0	
Total		350,827		517,106
III. Current financial assets				
Total		0		0
IV. Cash and cash equivalents				
2. Checks	0			0
3. Cash and cash assets	226			0
Total		226		0
TOTAL CURRENT ASSETS (C)		**859,558**		**1,948,953**
D. Prepayments and Accrued Income		**3,834**		**3,521**
of which loan discount in Euro			0	
TOTAL ASSETS		**13,577,319**		**20,022,236**

LIABILITIES	31/12/2011		31/12/2010	
A. Shareholders' Equity				
I. Capital		30,000		30,000
IV. Legal reserve		0		6,000
VII. Other reserves				
9. Payment of future capital increase account	0			2,000,000
17. Other miscellaneous reserves	-203,100			2,504
		-203,100		2,002,504
VIII. Profits/losses carried over		0		784,238
IX. Profit (loss) for the year		480,603		-4,443,257
Total		**307,503**		**-1,620,515**
B. Provisions for risks and charges				
1. Provision for retirement benefits	0			0
3. Other	972,705			1,345,000
Total		**972,705**		**1,345,000**
C. Staff severance indemnities		**67,450**		**80,491**
D. payables				
3. Debts payable to shareholders for loans	11,480,224			19,059,767
due after the next financial year			0	
5. Due to other financial institutions	294,890			294,890
due after the next financial year			0	
6. Advances	35,000			503,400
due after the next financial year			0	
7. Trade payables	270,192			284,726
due after the next financial year			0	
12. Tax payable	37,557			20,959
due after the next financial year			0	
13. Debts owed to social security institutions.	8,676			12,121
due after the next financial year			0	
14. Other amounts due	89,874			23,233
due after the next financial year			0	
Total		**12,216,413**		**20,199,096**
E. Accrued expenses and deferred income		**13,248**		**18,164**
of which premium on loans in Euro			0	
TOTAL LIABILITIES		**13,577,319**		**20,022,236**

Memorandum accounts	31/12/2011	31/12/20110
Guarantees	*1,126,892*	*699,930*
of which in favour of subsidiaries		
of which in favour of associates		699,930
of which in favour of parent company		
of which in favour of subsidiaries of subsidiaries		
Guarantees of payment of bills of exchange	*0*	*0*
of which in favour of subsidiaries		
of which in favour of associates		
of which in favour of parent company		
of which in favour of subsidiaries of subsidiaries		
Other Personal guarantee	*0*	*0*
of which in favour of subsidiaries		
of which in favour of associates		
of which in favour of parent company		
of which in favour of subsidiaries of subsidiaries		
Real guarantees	*0*	*0*
of which in favour of subsidiaries		
of which in favour of associates		
of which in favour of parent companies		
of which in favour of subsidiaries of subsidiaries		
Other Risks	*0*	*0*
of which receivables assigned with recourse		
Commitments assumed by the company	*950,000*	*995,720*
Third-party assets with the company	0	0
of which goods for processing		
of which assets used as deposits		
of which assets pledged or used as cautionary deposits		
Other memorandum accounts	*0*	*0*
Total	**2,076,892**	**1,695,650**

INCOME STATEMENT			31/12/2011		31/12/2010	
(in Euro)						
A.		**Production value**				
	1.	Revenues from sales and services	1,722,259			0
	2.	Changes in inventories of production in progress, semifinished and finished goods	-1,021,326			343,358
	5.	Other revenues and income	1,431,281			58,799
		of which capital contributions				
	Total			**2,132,214**		**402,157**
B.		**Production costs**				
	6.	Raw and ancillary materials, consumables and goods	655,827			343,358
	7.	For services	226,027			356,640
	8.	Rent, hire purchase, leasing and intellectual property charges	21,545			25,891
	9.	For personnel:				
		salaries and wages	357,093			333,985
		b. social security costs	95,233			94,239
		c. staff severance indemnities	27,211			25,222
		e. other costs	52			0
			479,589			453,446
	10.	Depreciation and amortization				
		depreciation of intangible assets	5,035			1,679
		b. depreciation of the tangible assets	32,932			33,301
			37,967			34,980
	11.	Changes in inventories of raw and anc. materials, consumables and goods	0			0
	12	Provisions for liabilities	724,605			1,345,000
	13.	Others provisions	26,578			0
	14.	Other operating costs	51,992			26,802
	Total production costs			**2,224,130**		**2,586,117**
	Difference between production value and costs (A-B)			**-91,916**		**-2,183,960**
C.		**Financial income and expense**				
	16.	Other financial income				
		b. securities recorded as tangible assets	75,000			0
		d. other income	616,274			797,496
		of which from associated companies			795,216	
			691,274			797,496
	17.	Interest payable and similar charges	188,309			216,347
		of which from parent companies			216,337	
	Total financial income and charges			**502,965**		**581,149**
D.		**Value adjustments pertaining to investments**				
	18.	Revaluations:				
		a. of shareholdings	73,000			1,050,000
			73,000			**1,050,000**
	19.	write-downs:				
		a. of shareholdings	0			3,705,499
			0			3,705,499
	Total financial asset value adjustments			**73,000**		**-2,655,499**
E.		**Extraordinary items**				
	20.	Income	1			1
		- of which capital gains from disposal			0	
	Total extraordinary entries			**1**		**1**
	Income before taxes A-B+/-C+/-D+/-E)			**484,050**		**-4,258,309**
	22.	Income taxes for the financial year, current, differed and prepaid		3,447		184,948
	23.	**Profit (loss) for the year**		**480,603**		**-4,443,257**