Banca Popolare dell'Alto Adige

Società cooperativa per azioni

Annual Financial Report

2012 financial year

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 2012: Euro 76,274,700 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

This is an English translation of the Italian language original "Relazione finanziaria annuale 2012" that has been prepared solely for the convenience of the reader. The Italian language original "Relazione finanziaria annuale 2012" was approved by the Board of Directors of Banca Popolare dell'Alto Adige on February 22, 2013 and is available on www.bancapopolare.it and www.volksbank.it

CONTENTS

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 (*) PHILIP FROSCHMAYR WERNER GRAMM LUKAS LADURNER ALESSANDRO MARZOLA MARGIT TAUBER (*) GREGOR WIERER
		(*) Independent directors as per art. 29 (6) of the articles of association
BOARD OF STATUTORY AUDITORS		
	Chairman	HEINZ PETER HAGER
	Standing Auditors	JOACHIM KNOLL GEORG HESSE
	Substitute Auditors	MASSIMO BIASIN 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.

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 Board of directors called the Ordinary and Extraordinary Shareholders' Meeting of Banca Popolare dell'Alto Adige Soc.coop.pa, on first call, on 18 April 2013 at 08.00 at the bank's head office, and, on second call, on **Friday 19 April 2013 at 17.00, at Palaonda di Bolzano, Via Galvani 34**, to discuss the following agenda:

Ordinary Session

1. Reports by the Board of Directors and by the Board of Statutory Auditors for the 2012 financial year; presenting of the financial statements and subsequent resolutions;
2. Determination of the 2013 share premium on Banca Popolare dell'Alto Adige shares, based on art. 10 of the articles of association;
3. Appointment of four directors as per articles 29, 30 and 54 of the articles of association.
4. Appointment of the Board of Statutory Auditors, and designation of its Chairman, for the three-year period from 2013-2015 pursuant to article 41 of the articles of association;
5. Report on the 2012 implementation of the remuneration policies and the new 2013 Regulations; subsequent resolutions;
6. Determination of the annual remuneration and attendance allowances to pay the Board of Directors for the three-year period 2013-2015;
7. Determination of the annual remuneration and attendance allowances to pay the Board of Statutory Auditors for the three-year period 2013-2015;
8. Determination of the limit on the number of offices that can be held at the same time as holding the position of statutory auditor.

Extraordinary Session

1. Free capital increase from Euro 76,274,700.00 to Euro 152,549,400.00 in accordance with art. 2442 of the Italian Civil Code, by allocation of reserves tot eh share capital, with corresponding increase of the par value of the shares from Euro 2.00 to Euro 4.00 each; related amendment of article 6, paragraph 1 of the Articles of Association.
2. Partial revocation of the mandate to increase the share capital, given to the Board of Directors on 17 April 2012, approval of the work of the Board, partially drawn from the aforesaid mandate and assignment of a new mandate

to the Board of Directors to increase the share capital to a maximum amount of Euro 6,131,876.00; resulting amendment of art. 6, paragraph 2 of the Articles of Association;

3. Amendment of the Articles of Association: amendment of articles 7, 9, 11, 13, 19, 24, 28 - 32, 34, 35, 37 - 42, 45, 47; addition of the new article 43 and resulting renumbering of some of the articles; removal of the current version of article 54 and addition of new articles 55 and 56.

Ordinary Session

9. Updating of regulations of the Shareholders' Meeting subject to approval of the amendments to the Articles of association cited in point 3 of the agenda (extraordinary session).

Notes

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 3 on the agenda, the members are reminded that they are entitled to submit candidate lists under the terms and manner laid down by art. 30 of the Articles of association.

Every list should contain four candidates sorted progressively. The lists should be filed at the head office of Banca Popolare dell'Alto Adige in Bolzano, via Siemens 18, no later than Monday 8 April 2013, 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 three hundred submitting members, or, alternatively

b) by one or more submitting members who hold, also jointly, at least 190,687 shares in Banca Popolare dell'Alto Adige in order to comply with the provisions of art. 30, paragraph 5, letter (a) or letter (b) of the Articles of Association; it should be mentioned that as at 31 December 2012 there were 29,681 members listed on the shareholders' register of Banca Popolare dell'Alto Adige with voting rights, and 90 days before the shareholders' meeting on first call, the bank's share capital amounted to Euro 76,274,700, divided into 38,137,350 shares with a par value of Euro 2,00 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 the 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 lists submitted for the appointment of directors shall be made available at the bank's head office and published at www.bancapopolare.it by Monday, 8 April 2013.

Candidacy for the position of statutory auditor for appointment to the Board of Statutory Auditors

In relation to point 4 if the agenda, the candidates for the position of statutory auditor should be filed at the head office of Banca Popolare dell'Alto Adige in Bolzano, via Siemens 18, no later than Monday 8 April 2013, together with the documentation required by the bank under art. 42, paragraph 1 of the Articles of association and art. 14, paragraph 4 of the Shareholders' Meeting regulation:

- curriculum vitae;
- statement that the candidate accepts the candidacy;
- statement that the candidate holds the requirements provided by law, including regulatory, in order to hold the position;

- any other statement required by the Bank in accordance with applicable laws and regulations.

Participation at Shareholders' Meetings

Persons entitled to participate at the shareholders' meeting are shareholders in possession of broker certification as required to current legal rules; the bank takes care of the shares that have already been placed for custody and administration at the 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 the branches:

  Office Manager; Branch Manager; Assistant Branch Manager;

  Head of Corporate Services, Head of Private Services;
- at the head office:

  General Administration Executive.

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, 8 March 2013

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

Mr Otmar Michaeler

In accordance with the Articles of association this notice was published in Gazzetta Ufficiale della Repubblica Italiana – part II – no. 36 of 26 March 2013.

Our Network

BANCA POPOLARE DELL'ALTO ADIGE
Società cooperativa per azioni
- Member of the Business Register of Bolzano, No. 00129730214
The bank adheres to the inter-bank deposit protection fund
ABI 05856.0

HEAD OFFICE AND BRANCHES

Bolzano, Via Siemens 18 – Bozen, Siemensstraße 18 Tel. + 39 0471 – 996111 – Telefax 0471 – 979188	www.bancapopolare.it - gsinfo@volksbank.it

BRANCHES

BOLZANO PROVINCE

Appiano – Eppan Via J. G. Plazer 56 - J.-G.-Plazer-Straße 56	tel. 0471-944270
Bolzano – Bozen Galleria Telser 1 - Telsergalerie 1	tel. 0471-944170
Bolzano – Bozen Piazza Mazzini 2 - Mazziniplatz 2	tel. 0471-944020
Bolzano – Bozen Piazza Parrocchia 4 - Pfarrplatz 4	tel. 0471-944050
Bolzano – Bozen Via Alto Adige 12-14-16 - Südtiroler Straße 12-14-16	tel. 0471-944350
Bolzano – Bozen Via C. Augusta 5 - C. -Augusta-Str. 5	tel. 0471-944250
Bolzano – Bozen Via del Macello 23/bis - Schlachthofstraße 23/bis	tel. 0471-944310
Bolzano – Bozen Via del Ronco 15 - Neubruchweg 15	tel. 0471-944260
Bolzano – Bozen Via Galvani 3/f - Galvanistraße 3/f	tel. 0471-944320
Bolzano – Bozen Via Leonardo da Vinci 2 - Leonardo da Vinci Str. 2	tel. 0471-996151
Bolzano – Bozen Via Resia 130 - Reschenstraße 130	tel. 0471-944290
Bolzano – Bozen Via Roma 45 - Romstraße 45	tel. 0471-944200
Bolzano – Bozen Via Sassari 4 b/c - Sassaristraße 4 b/c	tel. 0471-944100
Bolzano – Bozen Viale Druso 64 - Drusualle 64	tel. 0471-944340
Bolzano – Bozen Viale Giacomo Puccini 6 - Giacomo-Puccini-Allee 6	tel. 0471-944360
Bressanone – Brixen Portici Maggiori 2 - Große Lauben 2	tel. 0472-811213
Bressanone – Brixen V. Rio Scaleres 26 - Am Schalderer Bachl 26	tel. 0472-811630
Bressanone – Brixen Via Brennero 2 - Brennerstraße 2	tel. 0472-811670
Bressanone – Brixen Via Dante 51 - Dantestr. 51	ATM
Bressanone – Brixen Via J. Durst 28 - J.-Durst-Straße 28	tel. 0472-811600
Bressanone – Brixen Via Plose 38/b - Plosestraße 38/b	tel. 0472-811560
Brunico – Bruneck Bastioni 24 - Graben 24	tel. 0474-544700
Brunico – Bruneck Via Ospedale 11 - Spitalstr. 11	ATM
Brunico – Bruneck Via S.Nicolò 14 - St.-Nikolaus-Str. 14	tel. 0474-544790
Brunico – Bruneck Via Valle Aurina 30 - Ahrntaler-Straße 30	tel. 0474-544760

BOLZANO PROVINCE

Cadipietra – Steinhaus Cadipietra 105 - Steinhaus 105	tel. 0474-544800
Caldaro – Kaltern P.zza Principale 13 - Marktplatz 13	tel. 0471-944220
Caldaro – Kaltern Via Stazione 10 - Bahnhofstraße 10	tel. 0471-944230
Campo Tures - Sand in Taufers Via Municipio 4 - Rathausstraße 4	tel. 0474-544740
Chienes – Kiens Via Chienes 1 - Kiener Dorfweg 1	tel. 0474-544730
Chiusa – Klausen Piazza Tinne 5 - Tinneplatz 5	tel. 0472-811540
Dobbiaco – Toblach V.le S.Giovanni 23 - St.-Johannes-Str. 23	tel. 0474-544770
Egna – Neumarkt Largo Municipio 32 - Rathausring 32	tel. 0471-944280
Fiè allo Sciliar - Völs am Schlern Via Bolzano 3 - Bozner Straße 3	tel. 0471-944080
Fortezza – Franzensfeste Via Brennero 7/c - Brennerstraße 7/c	tel. 0472-811530
Gargazzone – Gargazon Vicolo dei Campi 2 - Feldweg 2	tel. 0473-254320
La Villa – Stern Via Colz 56 - Colz Straße 56	tel. 0471-944010
Laces – Latsch Via Stazione 1/b - Bahnhofstraße 1/b	tel. 0473-254440
Laives – Leifers Via Kennedy 123 - Kennedystraße 123	tel. 0471-944240
Lana Piazza Tribus 17 - Tribusplatz 17	tel. 0473-254350
Lasa – Laas Via Venosta 44 - Vinschgaustraße 44	tel. 0473-254310
Lazfons – Latzfons San Giacomo 3 - St. Jakob 3	tel. 0472-811620
Luson – Lüsen Vicolo Dorf 19 - Dorfgasse 19	tel. 0472-811590
Malles Venosta – Mals Via Stazione 9/b - Bahnhofstraße 9/b	tel. 0473-254400
Merano – Meran Piazza del Grano 3 - Kornplatz 3	tel. 0473-254111
Merano – Meran Piazza del Grano 3 - Kornplatz 3	tel. 0473-254106
Merano – Meran Piazza Stazione - Bahnhofsplatz	ATM
Merano – Meran Via Goethe 74/a - Goethestraße 74/a	tel. 0473-254300
Merano – Meran Via Matteotti 43 - Matteottistraße 43	tel. 0473-254330
Merano – Meran Via Monte Tessa 34 - Texelstraße 34	tel. 0473-254390
Merano – Meran Via Roma 278 - Romstraße 278	tel. 0473-254420
Monguelfo – Welsberg Via Parrocchia 13 - Pfarrgasse 13	tel. 0474-544750
Naturno – Naturns Via Principale 37/b - Hauptstraße 37/b	tel. 0473-254370
Nova Levante – Welschnofen Via Roma 8 - Romstraße 8	tel. 0471-944090
Ora – Auer Via Stazione 8 - Bahnhofstraße 8	tel. 0471-944040
Ortisei - St. Ulrich P.zza S. Durich 3 - S.-Durich-Platz 3	tel. 0471-944330
Racines – Ratschings Stanghe 18 - Stange 18	tel. 0472-811610
Renon – Ritten Via del Paese 14, Frazione Collalbo - Dorfstraße 14, Fraktion Klobenstein	tel. 0471-944370
Rio di Pusteria – Mühlbach Valles 116 - Vals 116	tel. 0472-811660
Rio di Pusteria – Mühlbach Via K. Lanz 50 - K.-Lanz-Straße 50	tel. 0472-811520
S. Leonardo in Passiria - St. Leonhard in Passeier Via Passiria 14 - Passeirer Straße 14	tel. 0473-254380
S. Lorenzo di Sebato - St. Lorenzen Via Josef Renzler 17 - Josef-Renzler-Str. 17	tel. 0474-544780
Scena – Schenna P.zza Arciduca Giovanni 7 - Erzh.-Johann-Platz 7	tel. 0473-254430
Selva Gardena – Wolkenstein Via Meisules 155/a - Meisulesstraße 155/a	tel. 0471-944000
Silandro – Schlanders Via Covelano 10 - Göflaner Straße 10	tel. 0473-254410
Siusi – Seis Via Sciliar 16 - Schlernstraße 16	tel. 0471-944300

BOLZANO PROVINCE	
Vandoies – Vintl Via J. A. Zoller 8 - J.-A.-Zoller-Straße 8	tel. 0472-811640
Varna – Vahrn Via Brennero 101 - Brennerstraße 101	tel. 0472-811650
Velturno – Feldthurns Paese 12 - Dorf 12	tel. 0472-811580
Vipiteno – Sterzing Via Città Nuova 22/a - Neustadt 22/a	tel. 0472-811500

BELLUNO PROVINCE	
Auronzo di Cadore Via Corte 33	tel. 0435-505650
Belluno Via Caffi 15	tel. 0437-356700
Belluno Via Caffi 1a/3	tel. 0437-356719
Belluno Via Vittorio Veneto 278	tel. 0437-356600
Cencenighe Agordino Via XX Settembre 107	tel. 0437-356640
Cortina d' Ampezzo Largo delle Poste 49	tel. 0436-863500
Domegge di Cadore Via Roma, 48	tel. 0435-505620
Dosoledo Piazza Tiziano 2	tel. 0435-505670
Feltre Via Monte Grappa, 28	tel. 0439-842600
Forno di Zoldo - via Roma, 70/b	tel. 0437-356620
Limana – via Roma, 116/118	tel. 0437-356690
Longarone – via Roma, 89	tel. 0437-356720
Mel - via Tempietto, 33/a	tel. 0437-356660
Padola - piazza San Luca, 22	tel. 0435-505690
Ponte nelle Alpi - viale Roma, 87	tel. 0437-356630
S. Pietro di Cadore Via P.F. Calvi 16	tel. 0435-505680
S. Stefano di Cadore Via Venezia 30	tel. 0435-505630
Santa Giustina - via Feltre, 17	tel. 0437-356680
Sappada Via Borgata Cottern 22	ATM
Sedico - via Cordevole, 2/b	tel. 0437-356650
Tai di Cadore - via Ferdinando Coletti, 15	tel. 0435-505600
Valle di Cadore - via XX Settembre, 76	tel. 0435-505660

PORDENONE PROVINCE	
Cordenons - via Sclavons, 77	tel. 0434-786540
Pordenone - via Galvani, 8	tel. 0434-786520
Sacile - via Martiri Sfriso, 9	tel. 0434-786500

TRENTO PROVINCE	
Ala - via della Roggia, 10	tel. 0464-912520
Arco - via S. Caterina, 20	tel. 0464-912510
Borgo Valsugana Corso Vicenza 47	ATM
Borgo Valsugana - via Hippoliti, 11/13	tel. 0461-211060
Cavalese - viale Libertà, 7	tel. 0462-248500
Cles - piazza Navarrino, 16/17	tel. 0463-840510
Fondo - via Cesare Battisti, 39	tel. 0463-840500
Lavis - via Rosmini, 65	tel. 0461-211070
Mezzolombardo Via A. Degasperi 4	tel. 0461-211030
Moena Piaz de Ramon 24	tel. 0462-248510
Mori - via della Terra Nera, 48/d	tel. 0464-912500
Pergine Viale Venezia 44	tel. 0461-211050
Riva del Garda V. Damiano Chiesa 4/g-h	tel. 0464-912560
Rovereto Via della Vittoria 11	tel. 0464-912550
Rovereto - via G. M. della Croce, 2	tel. 0464-912530
Tione - via Circonvallazione, 56	tel. 0465-338500
Trento – Trient Piazza Lodron 31	tel. 0461-211000
Trento – Trient Via Brennero 302/a	tel. 0461-211080
Trento – Trient Via Enrico Fermi 11	tel. 0461-211090
Trento – Trient Via S. Croce 44	tel. 0461-211040
Villa Lagarina - via degli Alpini, 8	tel. 0464-912540

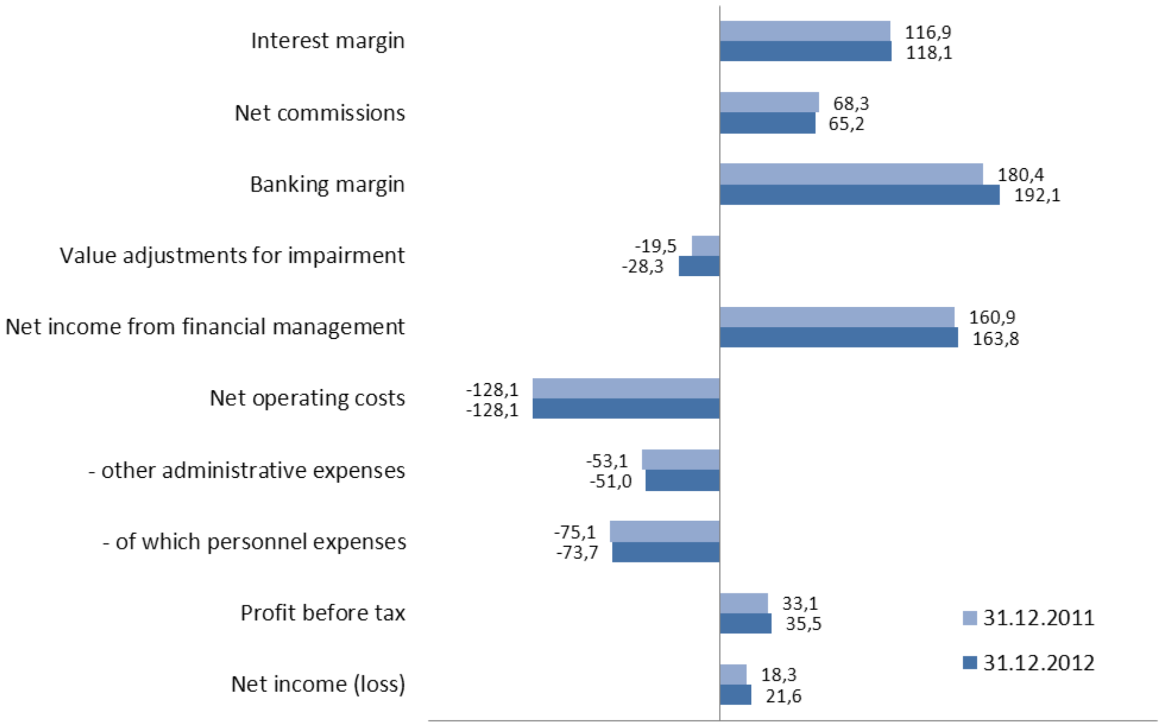
TREVISO PROVINCE

TREVISO PROVINCE	
Castelfranco Veneto – Borgo Treviso, 62	tel. 0423-974610
Conegliano - via Cesare Battisti, 5	tel. 0438-907740
Conegliano - via Cristoforo Colombo, 42	tel. 0438-907720
Crocetta del Montello - via Andrea Erizzo, 64	tel. 0423-974620
Mogliano Veneto – via degli Alpini, 16/g/f/e	tel. 0415-446660
Oderzo Via degli Alpini 24/26	tel. 0422-508100
Paese Via Cesare Battisti 3	tel. 0422-508140
Pieve di Soligo - via Nubie 3/d	tel. 0438-907700
Preganziol – piazza Gabbin, 16	tel. 0422-508120
Spresiano - piazza Luciano Rigo, 49	tel. 0422-508130
Treviso - viale IV Novembre, 13/a	tel. 0422-508110
Valdobbiadene Foro Boario 21-23-13	tel. 0423-974600
Vittorio Veneto - galleria Tintoretto, 3	tel. 0438-907710

VENICE PROVINCE	
Fossò - via Roncaglia, 1	tel. 0415-446690
Marcon – viale della Repubblica, 2	tel. 0415-446680
Martellago – via Friuli, 28	tel. 0415-446780
Mira – via Alfieri, 9/c	tel. 041-5446790
Mira Via Venezia, 120	tel. 0415-446730
Mirano - via Cavin di Sala, 39	tel. 0415-446710
Noale - via Tempesta, 31	tel. 0415-446630
Portogruaro – via S. Agnese, 28	tel. 0421-480810
San Donà di Piave - via Vizzotto, 92	tel. 0421-480800
Spinea – piazza Marconi, 17	tel. 041-5446670
Venezia Mestre P.zza Mercato 51 - Fraz. Marghera	tel. 041-5446800
Venezia Mestre Via Rovereto 8 - Fraz. Chirignago	tel. 0415-446600
Venezia Mestre Via Torre Belfredo 23 - Villa Toesca	tel. 041-5446750

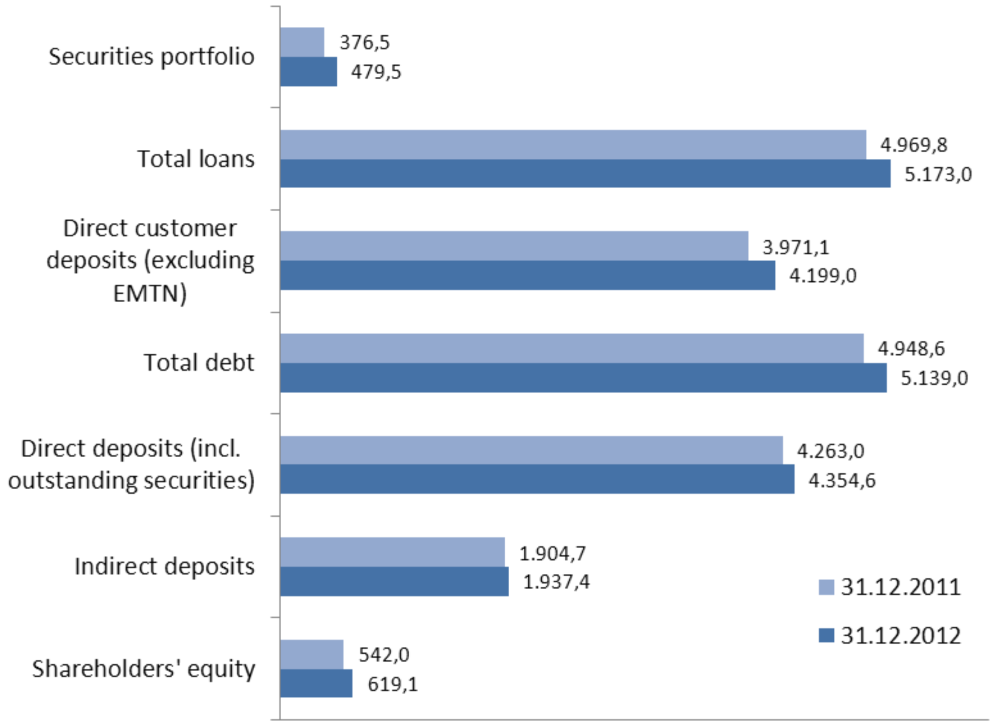
OUTLINE OF ECONOMIC-FINANCIAL DATA AND INDICES

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



Economic Data	**31.12.2012**	**31.12.2011**	**Change**	
(millions of Euro)			**Amount**	**%**
Interest margin	118.1	116.9	1.29	1.10%
Net commissions	65.2	68.3	-3.06	-4.48%
Banking margin	192.1	180.4	11.70	6.49%
Value adjustments for impairment	-28.3	-19.5	-8.75	44.77%
Net income from financial management	163.8	160.9	2.95	1.84%
Net operating costs	-128.1	-128.1 (*)	0.07	-0.06%
- of which personnel expenses	-73.7	-75.1 (*)	1.37	-1.83%
- other administrative expenses	-51.0	-53.1	2.07	-3.90%
Profit before tax	35.5	33.1 (*)	2.41	7.27%
Net income (loss)	21.6	18.3 (*)	3.29	17.96%

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.



Balance Sheet Data	**31.12.2012**	**31.12.2011**	**Change**	
(millions of Euro)			**Amount**	**%**
Securities portfolio	479.5	376.5	103.0	27.35%
Total loans	5,173.0	4,969.8	203.2	4.09%
Direct customer deposits (excluding EMTN)	4.199,0	3.971,1	227,9	5,7%
Total debt	5,139.0	4,948.6	190.4	3.85%
Direct deposits (incl. outstanding securities)	4,354.6	4,263.0	91.6	2.15%
Indirect deposits	1,937.4	1,904.7	32.7	1.71%
Shareholders' Equity	619.1	541.9	77.2	14.24%

Economic and financial ratios and other information	31.12.2012	31.12.2011	
Financial Indicators			
Structural ratios (%)			
loans to customers / total assets	84.35%	85.36%	
loans to customers / direct customer deposits (retail)	119.47%	120.81%	
fixed assets / total assets	2.53	2.81	
total risk-weighted assets (RWA) / total assets	76.46%	80.57%	
goodwill / total assets	0.68%	0.72%	
direct deposits / total assets	73.22%	75.85%	
managed deposits / indirect deposits	40.44%	42.28%	
Leverage (**)	11.54	11.21	
inter-bank balance (thousands of Euro)	-615,343	-497,936	
number of employees	1,077	1,105	
number of bank branches	134	133	
Profitability ratios (%)			
ROE	3.61%	3.49%	(*)
ROA (net profit / total assets)	0.36%	0.33%	(*)
Cost to income ratio	68.17%	72.17%	(*)
Net adjustments to loans / net loans to customers	0.53	0.41	
Basic EPS (earnings per share - earnings per share basis)	0.57	0.53	(*)
Diluted EPS (earnings per share - earnings per diluted share)	0.57	0.53	(*)
Risk ratios (%)			
net non-performing loans/net loans to customers	2.70%	2.72%	
net doubtful loans / net loans to customers	2.67%	2.16%	
Value adjustments to non-performing loans / gross non-performing loans	44.75%	40.72%	
value adjustments to performing loans / gross performing loans	0.46%	0.45%	
Regulatory capital (thousands of Euro) and capital ratios			
core tier 1 capital	487,563	412,052	
regulatory capital including Tier 3 capital	562,771	486,761	
risk-weighted assets (RWA)	4,547,398	4,528,350	
core tier 1 ratio	10.72%	9.10%	
total capital ratio	12.38%	10.75%	
Non-Financial Indicators			
Productivity ratios (in Euro)			
direct deposits per employee	4,043,303	3,857,923	
loans to customers per employee	4,657,834	4,341,754	
assets under management per employee	727,378	728,843	
assets under custody per employee	1,071,470	994,869	
banking margin per employee	178,392	163,280	

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

(**) Leverage= total tangible assets (total assets net of intangible fixed assets) / tangible equity (total equity net of intangible fixed assets).

DIRECTORS’ REPORT

1.1. Results, Policies and Strategies

1.1.1. The international and national economic outlook

<u>The Global Economy (1)</u>

The European economy went into recession in 2012 for the second time since 2008. According to official statistics from the European Union, the GDP of the 17 Eurozone countries fell by 0.1% in the fourth quarter, after a fall of 0.2% in the third quarter.

The downturn was widespread, with some exceptions. France and Germany grew by 0.2% in the fourth quarter, higher then expected. Some of the areas hit hardest by the financial crisis only suffered slight declines, with GDP in Spain dropping by 0.3% and by 0.2% in Italy.

However, the recession in Europe as a whole spread its roots deeper and wider, including into countries that had not been so severely affected, if at all, previously. Normally solid countries such as Austria and Holland even went through recessions.

A brief analysis of the main events of 2012 will help improve our understanding of the current situation.

The European economy was characterised by instability with respect to the sovereign debt crisis in the first half of 2012. Many Southern countries of the Eurozone went into recession, while most of the countries in Northern European countries recorded weak growth. Government spending was reduced due to pressure to cut budgets and consumer spending was marked by uncertainty caused by increasing fiscal pressure and growing unemployment. The European economic situation was unstable as a whole, blocking investments for development and growth in the manufacturing sector.

GDP in the Eurozone continued to fall, even in the third quarter although to a lesser extent than expected, mainly due to the weakness of internal demand. Announcements by the European Central Bank (ECB) in the third quarter on implementation of the definitive outright monetary transactions (OMT) and the coordinated interventions at European level to manage deficits along with agreement on the definition of a single bank supervisory system led to significant relaxing of pressure on sovereign debt issues. The latter part of the year was marked by more relaxed monetary conditions.

However, the economic situation is still weak. GDP fell by 0.1% in the third quarter of 2012 compared with the previous quarter, mainly due to weak internal demand, which has continued to decline since the second half of 2011. The fall included both production sector investments and household consumption. On the other hand, foreign trade was strong, contributing positively to the GDP, mainly due to the increase in exports offset only slightly by an increase in imports.

There was a further reduction in business activity in the final quarter of 2012, which also extended to those countries that had recorded more positive performances in the first half of the year. Overall, GDP can be estimated to have increased by about 0.3% in the entire Eurozone in the fourth quarter of 2012. Domestic demand is still weak, both with respect to household consumption and in the production sector, with a drop in industrial output of 2.3%.

As noted above, the difficulties in the final quarter extended to traditionally stronger countries in the EU: France and Germany recorded drops in production in the last quarter of 2012.

[1]Formulated by the Banca Popolare dell’Alto Adige from sources taken from the International Monetary Fund, World Economic Forum, Bank of Italy, ISTAT, chamber of commerce information and financial news.

Inflation remains weak. In the second half of 2012 consumer inflation in the Eurozone stood at 2.2%, and tending downwards.

After having established the OMT mechanism in September, the board of management of the ECB set its benchmark rate for the main refinancing transactions at 0.75%. Flat rate refinancing transactions will continue at least until the beginning of July 2013.

There were a number of important economic policy decisions made at European level in 2012. On 12 December, the Council of economic and financial Ministers of the EU countries reached an agreement on the proposal of the European Commission aimed at establishing a single supervisory mechanism at European level for banks (Single Supervisory Mechanism, SSM). This single supervisory mechanism is a fundamental step towards greater economic and political integration. The SSM must be integrated with a common mechanism to deal with crises and harmonized deposit guarantee systems. When the SSM enters into operation, the European Stability Mechanism (ESM) may recapitalize banks directly instead of through loans to the country that the credit institutions belong to, on the basis of an ordinary decision. Actual implementation of the mechanism will require further efforts to harmonize legislation, including fiscal legislation, of the individual countries.

The ECB and the central banks of the individual member countries will participate in the SSM. The ECB will directly supervise any credit institutions that are considered to be significant or that received financial assistance from the European Financial Stability Facility (EFSF) or from the ESM. Supervisory duties and powers will be delegated to the national authorities for the smaller banks. The ECB may decide to directly supervise any credit institution at any time.

The ECB may fully assume the powers conferred starting from 1 March 2014, i.e. twelve months after the entry into effect of the SSM.

The financial markets

The measures adopted by the Eurosystem as noted above in the third quarter led to substantial improvement in the financial market conditions. The premium on sovereign risk in the Eurozone countries that was still very high in the first half of the year came down significantly, with positive effects on security trading and reducing market volatility. Similarly, stock prices benefitted from this, and recorded positive trends, especially in the latter part of the year. There is still a significant risk of further impairment of the framework however, especially where the global economic prospects are still weak and the process of correcting imbalances at European level does not continue with adequate strength.

The ten-year government bond yields in the Eurozone were down by an average of 33 basis points from the beginning of the fourth quarter of 2012, mainly due to the drop in yields from the countries that have greater exposure to the sovereign debt crisis.

The improvement is partly due to the announcement by the ECB of implementation of the OMTs and partly due to the account consolidation undertaken by the countries with the greatest macroeconomic imbalances. Other positive effects are due to the further steps taken towards creation of the European banking union, involving the adoption of harmonization decisions at bank level, and the making of concrete decisions at European level on financial support in the most difficult situations, including support to Greece and the Spanish banks. The partial agreement reached on the fiscal cliff in the United States at the end of December meant that a progressive relaxation of the crisis could be expected.

The yield differentials between the ten-year government bonds and the corresponding German Bund came down in Portugal, Spain, Italy and Ireland; lower reductions were also recorded in Belgium and France.

The reduction in pressure on the government bonds led to the progressive improvement of bank lending conditions, with progressive improvement of the risk premiums assigned to the banks on average. The industrial sector also benefitted, especially for issues denominated in Euros or dollars.

Share indices increased in the main countries of the Eurozone in the second half of the year. There were also increases in share indices in non-EU countries, mainly in the United States and Japan, even though more differentiated.

The Euro gained strength against the other main currencies following the improvement of prospects in the Eurozone. This improvement was also facilitated by the particularly expansive monetary policies adopted by the United States.

The National Economy

The Italian economy was in recession in 2012. The fall-off that marked the first half of the year eased off in the second half, however, there is still no clear end to the crisis in sight. The economy was still in recession at the end of the year, lasting through the beginning of 2013.

Domestic GDP fell by 0.2% in the third quarter of 2012 as against a fall of 1% in the previous three quarters. Net foreign demand grew, and helped soften the effects of the recession, mainly linked to the significant reduction in internal demand. There was a significant drop in both household consumption and gross fixed investments in 2012.

The recession lasted through the fourth quarter. GDP dropped by 0.5% in the last quarter of the year compared to the previous quarter. These negative indicators did not improve in the beginning of 2013. Inflation (national index of consumer prices, PICK) fell progressively during the third and fourth quarters of 2012, standing at 2.3% in December.

Industrial output showed further drops in the second half of 2012. The operators do not expect a return to growth at least in the first half of 2013. The significant weakness of domestic demand puts the brakes on recovery. The crisis in the domestic automobile market is very clear.

The industrial output index continued to reflect the extended climate of uncertainty. All the main industrial sectors are showing signs of weakness, but is particularly marked in durable consumer goods. The SME indicators are still at lower values than they should be for recovery. The business climate index was at very low levels for the entire year. Business investments recorded a further drop-off in the latter part of 2012 (-1.4%), even though less marked than the first half of the year. A recovery in production may be encouraged on the one hand by the elimination of uncertainty in the development of domestic demand, and on the other, by the progressive reduction of the accumulation of unused production capacity due to the reduction in stocks.

The property sector continues to show signs of hardship. Investments in construction continued to fall in the third quarter of 2012. Purchases and sales in the residential area were substantially at a stalemate situation for the entire year. There are no signs of recovery at the moment. House prices showed a slight fall, in marked contrast to the substantial collapse in negotiations. Prices are expected to fall further before the conditions are ripe for a recovery in negotiations.

The competitiveness of Italian companies, blocked by problems related to production, and restrictions on the labour market, are closely linked to the performance of the Euro.

Financial requirements of companies are down, mainly due to the fall in investments. Since profitability is down, the reduction in investments means that the self-financing capacity remained stable, and the weight of net financial charges was kept down.

Total company debt amounted to a little less than 80% of GDP in the third quarter of 2012, about 20 percentage points lower than the average Eurozone level figure. Bank loans to businesses continued to fall, both to medium-large companies and small ones.

Household consumption continued to drop, including in the most recent months, reflecting the extended drop in disposable income and the high levels of uncertainty. Household spending was down in all areas for the entire year, but most significantly in durable goods. Consumer choice reflected the extended weakness of purchasing power: in 2012, the average real disposable income available to households fell further compared to the previous year. The propensity towards saving also fell.

The consumer confidence index stabilized at historically low levels. It was most strongly affected by pessimism on the outlook for the general economic framework and the deterioration of expectations in labour market trends.

There are no signs of a possible recovery in consumer behaviour that would be linked to a substantial about-turn in the overall economic situation.

The relationship between household debt and disposable income is at much lower levels than the average European level. The ratio of disposable income, charges incurred by Italian households for debt service (payment of interest and repayment of principal) fell further. The drop - which began last March - continued in home purchase mortgage rates and consumer finance rates.

Foreign demand continued to provide a positive contribution to GDP growth, thanks to an increase in exports and a drop in imports. The improvement in the trade balance led to a strong reduction in the current account deficit. Foreign capital flow recovered with the progressive consolidation of prospects in the EU.

The increase in the number of people looking for work continues to push unemployment rates up. This reduction in real salary levels continues, albeit at lower rates than the first half of 2012.

The State sector

State sector requirements fell further in 2012. In accordance with the information available, the net debt of the public administrations is close to the 3% product threshold (3.9% in 2011). The debt/GDP ratio increased by about six percentage points; a third of this increase reflects support to the Eurozone countries in difficulty and the capital contribution to the European Stability Mechanism (ESM). Parliament approved the stability mechanism law for 2013 in December, making certain significant changes to the draft law presented by the Government. The provision has a slightly growth-oriented impact on the net debt for the year in progress in official evaluations, and almost no effect in the subsequent two-year period.

1.1.2. The regional economic outlook

Trentino-Alto Adige

The economy of the independent Provinces of Trento and Bolzano showed various signs of slowdown in the first half of 2012. The manufacturing industry was affected by the reduction in domestic demand and the slowdown in foreign demand which had provided a significant boost starting from 2009.

The rate of increase in employment in Alto Adige began to gradually slow down in the first part of 2012, however trends were positive. According to ISTAT (national statistics institute), the numbers in employment (employees and independent) in the second quarter of the year increased by 2.2% compared to the same period of the previous year.

Alto Adige companies recorded stable business turnover in the second half of 2012. Profitability improved in all sectors compared to the first part of the year, and 75% of companies expected to turn a profit. The construction sector and wholesale and retail trading were better than expected. There was also an increase in profitability in the manufacturing, service, transport, vehicle trading and hotel and restaurant sectors. However there were six areas in which the majority of companies closed in the red in the second half of 2012: more specifically, the production of sporting and leisure time goods, printing and graphics businesses, sales of construction materials, retail sales of furnishings and furniture, and bar and café property assets. Companies indicated that the increased fiscal pressure and heavy bureaucratic requirements were the most significant factors influencing 2012. The financial crisis is followed by uncertainty in global markets, the increased costs of production, the drop in demand and lowered outlook.

Alto Adige companies expect profitability to recover slightly in 2013 after the strong drop recorded in the first half of 2012: 73% of the companies interviewed expected to earn a profit in the first half of 2013. More specifically, 15% expect “good” profitability, and a further 58% expect it to be “satisfactory”. 27% of companies expect to make a loss. Six sectors out of nine expect income levels to stabilize: construction companies, wholesalers and services expect things to get worse over the next few months.

The reduction in turnover in Trentino once again is caused by the drop in internal demand, and more especially in local demand, which is falling by 4.3% on an annual basis, while national levels are witnessing lower reductions in demand (-1.2%). Foreign sales continue to increase (+2.3%) even though the growth rate fell significantly compared to previous periods in the last two quarters of 2012. The companies which seem to be least affected by the crisis are the medium sized ones (21-50 employees) where turnover is growing by 0.4% annually; however revenues from sales have fallen significantly in micro companies (1-4 employees) (-13.5%). Companies with 11-20 employees are also suffering significantly (-9.1% lower turnover), while the small (5-10) and large companies (over 50 employees) seem to be reacting better even though the increase in turnover is down to about 1%. The most worrying figure to emerge at the end of 2012 is the significant reduction in employment levels, which fell by 1.9% compared to the fourth quarter of 2011. This figure is even worse in the micro companies where the reduction in employment levels is 4%. Hours worked have also been considerably reduced and are down by 1.9%.

Industry

The industrial sector is also showing signs of weakness. Company turnover is down. The percentage of companies that expect to close 2012 with a profit is down, while a higher percentage of companies than 2011 will close the year with a loss. No signs of a relaxation of this difficult period have not been recorded in the short-term period. Orders are down. The fourth quarter should register a further fall-off. There may be signs of improvement only in the first half of 2013.

The high levels of uncertainty in the economic situation, at the same level as the national situation, drove companies to reduce or postpone their investment plans; this has been the case since 2011. Expectations are that this trend will continue in 2013: there will have to be an actual improvement in expectations before this tendency to reduce investments changes.

With special reference to the Province of Bolzano, turnover levels were stable in Alto Adige companies in the second half of 2012. The depth of negative expectations expressed in the first half of the year lessened in the second half.

In Trentino, the industrial manufacturing sector is one of the few sectors that seems to be resisting the current recession, albeit not completely immune to its effects. In accordance with the information available at the end of December, turnover reduced by 1.2% on an annual tendential basis, which is low compared to other sectors; employment is stagnant (+0.3%). Turnover on foreign sales remained positive (+1.4%) even though this increase was much lower than the first half of the year. Companies that continued to grow are the ones that operate in the food and drink sector, while the sectors that process non-metal minerals and the paper industry have been heavily hit by the recession.

In the Province of Trento, artisanal companies in the manufacturing and service industries that mainly rely on domestic demand in the Province were hurt by the fall in local demand, and turnover is down by 2.0% on a yoy basis. Employment figures are also showing clear signs of a slowdown.

Foreign Trade

Foreign demand which was historically one of the main driving forces of the local economy showed signs of a slowdown in 2012. Exports were still up for the Province of Trento, although to a lesser extent than previously. Exports in Alto Adige began to fall off in 2011 and fell even further in 2012, even though not markedly so.

The most significant sectors for the local economy that continued to grow include the sale of means of transport, machines and equipment, while the metal product sector fell back, especially in Alto Adige. Exports of foodstuffs decreased in the Province of Trento, but increased in the Province of Bolzano. Agricultural product trading decreased slightly in the Province of Bolzano.

The contribution to the economy by foreign trade was higher for the non-EU countries, and more especially North America and the non-Eurozone countries. Exports were slightly down to the Eurozone countries. Companies that were most strongly affected by the reduction in demand were those that have business in Asian countries and countries outside the Eurozone. As regards the EU countries, there was a reduction in exports to Germany, but an increase in exports to Austria and France.

With reference to the Province of Bolzano, foreign trade in the second quarter of 2012 was highly varied: there was a minimal drop in exports (-0.2%) and a very strong drop in imports (-7.7%). Trade with the main trading partner, Germany, dropped with respect to both exports and imports. On the other hand trade with Austria increased.

A detailed analysis of the exports shows strong differences between the various categories of commodities: there was a strong growth in the “means of transport and component sectors” (+21.1%) and the “food and drink” sectors (+9%), while exports of “chemical and pharmaceutical products” and “synthetic and rubber products” were down (-65.9% and -13.6% respectively).

There was a 2.6% drop in annual company turnover in the fourth quarter of 2012 in the Province of Trento compared to the same period of 2011, mainly due to the fall in internal demand, while exports were the main element propping up the Trento economy. However, this support clearly referred to the sectors that are more closely associated with, and big enough to deal in foreign trade. The sectors that are traditionally associated with exports, wholesale trading and the industrial manufacturing sector showed less negative performances than the sectors that almost exclusively involve local and domestic demand, such as retail trade, construction, mining and artisanal manufacturing and services that were marked by a strong reduction in turnover compared to 2011. The increase in exports was strong in the first six months of the year, in accordance with the previous year, but then slowed down significantly in the second half, thereby throwing new shadows on the possibility of recovery in the short term.

Construction and the property market

Work in this sector suffered a further drop off compared to 2011, which was already down from the previous year. This effect was felt more in the Province of Trento than in the Province of Bolzano. The number of people employed in the sector was down in both Provinces.

The value of production and turnover were also therefore down. Profitability expectations for the companies were reduced compared to 2011 which was also worse than the previous year. The percentage of companies with a positive evaluation of profitability in the Province of Bolzano was strongly down: no more than 60% of companies expected to close the 2012 financial year with a profit.

There is a structural crisis in the construction sector and porphyry mining sector in the Province of Trento. YoY turnover and the value of production have fallen by 8,1%. The only positive aspect is related to an increase in the turnover made outside the Province in the second half, even though this only involves a limited number of companies and small amounts. Employment fell slightly in this quarter (-0.4%). There was a reduction in business volumes and sales prices. The public works sector is also undergoing difficulties due to the strong reduction in smaller works (between Euro 40,000 and Euro 150,000), partially offset by an increase in larger public works (over Euro 150,000).

The construction sector, like the manufacturing sector, includes both larger sized industrial companies and a high number of small artisanal companies in the Province of Bolzano. Unlike the manufacturing companies, the construction companies have much stronger links to the territory (over 90% of turnover is produced in Alto Adige). There are negative expectations for new orders. A drop in both the Italian market with an even more significant drop in the local market are expected. This should all result in negative effects on business volumes. Sales prices are falling, and costs are increasing, leading to further drops in profitability. It should also lead to drops in employment levels. The unexpected positive performance in the second half of 2012 is not expected to continue into 2013. The level of confidence has fallen in the construction of infrastructures, buildings and plant installations, however there are some companies that believe that they will close the first half of 2013 in profit. In fact they expect an increase over the previous period.

Services and trade

The figures gathered by the Chamber of Commerce of the Province of Bolzano indicate that the percentage of companies operating in the wholesale sector that state that they are satisfied by their profitability has fallen below 60%, with a 20 point drop compared to 2011; wholesalers expect a further drop in business volume for the second half of the year. Profitability is also down in the retail sector: apart from the automobile sector operators (for whom the index fell by about 20 percentage points), the percentage of interviewees satisfied with their profitability has fallen by 10 percentage points, returning to 2009 levels (about 70%).

Business volume and employment in service companies in Alto Adige should start to increase again and there is a high percentage of these companies that are confident that they will close the first half of 2013 in profit. However, profitability expectations have fallen due to the negative expectations regarding cost dynamics and order trends on the domestic market. The “services for the corporate sector”, “personal services”, “computer” and “publishing and communication” operators are particularly optimistic, while confidence is still low in the property sector and the “financial and insurance services” sector.

The findings by the Chamber of Commerce of the Province of Trento show a drop in retail turnover for the first half of the year (-10% in the first quarter and -14% in the second, compared to the same period of the previous year); the car dealers’ situation is particularly serious in this area, as they have reported falls in sales of over 30%. On the other hand, wholesalers reported growth of 7.5% between January and March, but falling by 1.9% between April and June. The second half of the year was marked by a significant decrease in turnover (-6.3% in the fourth quarter only), mainly due to the very negative tendential changes in certain large companies. Unemployment fell significantly in the last quarter (-3.4%) and showed negative tendencies for the second quarter in a row.

Tourism

The 2012 summer season concluded on a positive note in Alto Adige, with respect to the number of tourists visiting. Figures updated to the end of August show a 1.7% increase in bookings compared to the previous year. The reduction in Italian tourist numbers (-4.2%) was offset by the positive figures recorded for the other customer segments. More specifically, German tourists were up by 5.4%. However, this positive trend showed signs of falling back towards the end of the year. The continued cost increases made profitability expectations progressively uncertain for the end of 2012 and beginning of 2013.

The first half of 2013 is expected to be substantially stable for hotels and restaurants with respect to customer presences, sales prices and profitability expectations. It should therefore be possible to maintain employment levels despite increasing cost trends. Similar tendencies are also expected for bars and cafés.

Employment

The labour market observation office of Alto Adige shows a 0.2% increase in employees in work for the first ten months of the year. The “hotel and restaurant” sector created most jobs (+2.3%) along with the “other services” sector (+2%). On the other hand, there was a fall in job figures for agriculture (-3.3%), construction (-2.9% in general, and -3.4% in the construction industry), and in the “transport and warehousing” sector (-1.5%). There was a 4.1% unemployment rate in Alto Adige as indicated by the ISTAT for the second quarter of 2012. According to the figures from the labour market observation office, the number of people looking for work in 2012 increased by about 10%, for a total of 10,000 units on average. This is a relatively high number for Alto Adige. In addition, the number of people on unemployment benefit increased and now number about 2,300.

The year 2012 can be divided into two parts in the Province of Trento: in the first six months, the tendential changes in employment only appeared to be weakly negative, and mainly involved the sectors suffering structural crisis, mining and construction, in addition to transport and smaller sized companies. On the other hand, the increase in unemployment became increasingly intense in the second half of the year, involving most sectors and company sizes.

Veneto Region

Economic activity decreased in Veneto in the first half of 2012 as a result of lower domestic demand and slowing global trade. Household consumption fell resulting in a drop off in sales by companies involved in commerce. Worsening economic prospects and the already strained financial sector led to a further fall off in investments. Foreign demand provided a small contribution to business in the region: exports were stagnant, and there was a small increase in foreign tourists. The fall off in the construction sector continued, along with the more recent downturn in industrial output. The increase in employment levels came to a halt, and there was greater recourse made to redundancy schemes; however less use of these schemes was made than the historically high levels of 2010.

The increase in the number of people looking for work corresponds to an increase in unemployment rates.

The construction and property market sectors are particularly hard hit. The manufacturing industries do not plan to increase investments for 2013, and will consolidate the risk of a structural reduction of technical industrial capacity. Bank loans to the private sector in the first eight months of 2012 fell, due mainly to the weakness of demand. In accordance with assessments made by intermediaries, what is on offer is still selective but is starting to improve; bank interest rates are no longer increasing as of last Spring. The continuation of the economic crisis is reflected in the increase in the percentage of bank loans that have difficulties in meeting repayment plan requirements. There was a moderate recovery in the first part of the year in family and company bank deposits. Families in particular favoured fixed term bank deposits, where demand was encouraged by an increase in the return offered.

Industry

Levels of industrial activity started to fall off in the second half of 2011, and continued to fall during 2012, affected by the increased weakness in consumption levels and investments, and the marked slowdown in global commerce. In accordance with a survey made by Unioncamere of Veneto, production fell by 4.3% in the first nine months of the year compared to the corresponding period of 2011. There was a fall -off in orders from the domestic market (-6.9%) and a slight fall-off in orders from the foreign market (-0.9%). There was a drop in all sectors of production apart from the food segment; it was particularly strong in the fabric, clothing and shoe sector (-6.9%), timber and furnishing (-7.3%) and in the marble, glass, ceramic and other non-metal mineral (-8.2%) sectors that are all closely related to the construction sector trends. The producers of investment assets also suffered - albeit to a lesser extent - even though this was a sector which had driven regional industrial activity for the previous two years. The fall in production affected smaller sized companies to a greater extent, most of whom depend on the internal market: for those with a number of employees of between 10 and 49, production fell by 5% as opposed to a 2% drop in companies with at least 250 employees. The survey carried out by the Bank of Italy between September and October on a sample of companies with at least 20 employees indicates a fall in turnover in the first nine months compared with the same period in 2011, resulting in a drop in profitability: the percentage of companies that expect to close with a profit for the current year stands at 50% (this figure stood at 66% in the survey carried out last year). Short-term prospects are not encouraging: there are more who believe that there will be a fall in orders over the next six months than those who expect that there will be an increase, even though this difference is less marked than last September. The worsening prospects for demand and lending conditions further weakened the already weak propensity towards investing:

The percentage of companies that expect to close the year having made lower investments than those planned for at the beginning of the year - which had already seen a strong drop of the accumulation - is 20 percentage points higher than the companies that expect to make a higher level of investments than forecast. The long period of weakness in investments is reflected in the technical production capacity, i.e. the maximum production that can be obtained using the factories to maximum capacity. According to the results of the survey, 39.2% of the industrial companies reduced their production capacity compared to what was available at the most recent cyclical peak of their business activity. Among these, the highest percentage (19.6%) regard companies where the previous peak dates back to between 2005 and 2007, and that are therefore finding it more difficult to recover production levels. The investment programmes for 2013 still show signs of a cautious approach: about 23% of companies expect to reduce investments further, with only 14% expecting to increase them.

In the last quarter of the year, industrial output fell by 3.4% compared to the same period in 2011 even though this drop was lower than the previous quarter (-4.9%), while the seasonally adjusted economic situation was -1.5%. The economic analysis of the manufacturing industry by the Unioncamere of Veneto, with the assistance of Confartigianato of Veneto was carried out on a sample of almost 2,900 companies with at least 2 employees.

The negative trends in production continue to affect the micro companies mainly (2-9 employees), recording a 7.9% drop. The big (250 employees or more) and small companies (10-49 employees) follow with drops of -4.5% and -3.5% respectively. The best performance was recorded by medium-sized companies (50-249 employees) with a drop of -1.9%. The negative trend affected the companies that make investment assets in particular (-4.5%) followed by companies that produce consumer goods (-3.3%) and intermediaries (-3%). As regards the various sectors, the highest falls were recorded for the timber and furnishings segments (-6.7%), marble, glass and ceramics (-6.4%) and means of transport (-6.1%). The least affected sector was the food, drink and tobacco sector (-1.5%).

The drop in turnover yoy continued (-3.3%) even though to a lesser extent than the previous quarter, with slight improvement thanks to foreign turnover trends that were positive. The worst performance was recorded by the micro (-6.4%) and big companies (-5.4%), followed by the small (-3.5%) and medium-sized companies (-1.9%). With respect to the various sectors, the worse affected were the timber and furnishings segment (-7.7%) and means of transport (-6.2%). Rubber and plastic (-1.4%) and food, drinks and tobacco (-1.8%) fared better. The negative growth was also a result of continuous falls in internal turnover (-5.2%), especially with respect to means of transport (-10.6%), timber and furnishings (-8.8%) and marble, glass and ceramics (-8.6%). The positive change in foreign turnover (+0.6%) is mainly due to medium and small enterprises (+1.7% and +1% respectively) with almost all sectors showing positive growth. The main segments were marble, glass and ceramics (+3.3%), metals and metal products (+2.9%), food (+2.1%), and fabrics and clothing (+1.8%). However, there was negative growth in the timber and furnishings segment (-2.8%) and means of transport (-2.7%).

Orders fell by 3.2% on a yoy basis (-7.5% for the micro companies). The worse performance was by the timber and furnishings segments (-7.9%) and marble, glass and ceramics (-6.9%). Foreign orders returned to positive growth (+0.6%), due to bigger companies (+0.6%). The sector showing the best performance was the metal and metal products segment (+2.7%), while the means of transport segment was particularly negative (-4.5%). Orders in the internal market continued to be negative (-5%) mainly with respect to the micro companies (-7.7%). The worst hit sectors were the marble, glass and ceramics (-9.7%) and the timber and furnishing (-9.2%).

Foreign Trade

After a 10.3% increase in foreign turnover in 2011, reaching a value of Euro 50 billion - over the pre-crisis levels - the Veneto Region showed weak growth of +1.9% in the first half of 2012, selling products amounting to about 27 billion, equal to 13.1% of Italian exports.

Even though this was the only component of the GDP that performed in this difficult economic context, especially with respect to the crash in internal demand, foreign turnover is not a determinant factor in the regional economic cycle: the positive contribution of the trade balance, with a surplus of Euro 6.6 billion, is due to the fall in imports, which fell by -10.6% compared to the first six months of 2011, amounting to Euro 19 billion.

From the merchandise standpoint, the weak growth in regional exports was influenced by the downturn in certain important areas in the first six months of 2012. The sectors that had an effect on the foreign turnover performance included machinery, the leading sector for Veneto exports, where the value in June fell to almost Euro 5 billion (-4.9% yoy). The other products that are important to the regional economy also suffered: other electronic equipment, shoes, rubber or plastic products, yarns and fabrics. On the other hand, some of the main highly specialised sectors in Veneto recorded light growth in exports: metallurgy, metalwork, eyewear and clothing.

In the first nine months of 2012, the foreign turnover in Veneto registered weak growth tendencies, of +1.5%, an increase which was lower than the national average (+3.5%), especially due to the drop in flows to EU countries (-1.9%) while exports to non-EU countries grew (+6.5%).

In the second half of the year, orders from foreign markets returned to positive growth, recording 0.6% in the final quarter, due to bigger companies (+0.6%). The sector showing the best performance was the metal and metal products segment (+2.7%), while the means of transport segment was particularly negative (-4.5%).

Construction and the property market

In a context characterised by further slowdown in the property market and the ongoing weakness in public investing, the construction sector continued to decline in the first half of 2012: according to the survey carried out on the Veneto economic situation by *Veneto Unioncamere*, turnover by construction companies fell by 4.1% compared to the corresponding half-year period of 2011. This drop concerned all companies and was felt the most in companies with more than 10 employees (-5.5%) which are more dependent on orders from the public sector. The drop in business of smaller artisanal companies was less marked (-3.0%) and benefitted from the improved performance of maintenance and restructuring for residential properties helped by the second “House plan” approved by the Region in July 2011.

With special reference to the house plan, in 16.4% of the cases, the artisanal companies indicated that they had already carried out or had started work related to it, while the value was less than 4.8% in the non-artisanal sector. About 7.0% of companies from both sectors declared that they had given estimates, while the other companies confirmed that they did not have any requests (53.1% artisanal, 61.7% non-artisanal). As regards figures, 42.7% of the work was for amounts of up to Euro 20,000, 24.6% for work of between Euro 20 and 30 thousand, and 32.7% for work of more than Euro 30 thousand. The companies carried out up to three jobs in 77.4% of cases (72% in the first quarter) and the rest carried out over four jobs.

According to the Territory Agency, residential real-estate sales dropped by in the first six months of the year (-25.9% compared to the same period in 2011), reaching their lowest values in the last twenty years. House prices remained substantially stable over the same period; net of the change in consumer prices, prices fell by 1.9% on a yoy basis.

Despite the fact that the indicators recorded a slight improvement in the second half, prospects in the sector are still particularly difficult. The prospects of a recovery and exit from the crisis appear increasingly difficult in the fourth quarter alone compared to the previous quarter.

In the last quarter, turnover fell by 1.4% in non-artisanal companies, an improvement compared to the -3.4% of the previous quarter, while the artisanal companies showed substantial stability, with -3.1% (-3.3% previously). From the territorial standpoint, business volumes were down all over the province with more limited falls in Venice (-1.6%) and Verona (-1.9%). The indicators for Rovigo (-4.9%), Treviso (-3.6%) and Padua (-3.4%) were particularly negative. With respect to size, there was a significant difference between the dynamics of the small and medium-sized companies at -2.8% and -4.9% respectively and the large-sized ones (-1.8%) which recorded the best dynamics. Orders fell by -3% which was in line with the previous quarter (-2.8%). The difference between artisanal (-2.8%) and non-artisanal (-4.2%) is significant however. The distribution by size is not uniform: -2.8% for small and large sized companies, -3.6% for medium-sized companies. All provinces experienced difficulties at a territorial level, with especially negative situations in Rovigo (-4.5%) and Treviso (-3.5%).

The Sales Sector

The retail sector was affected by the weakness in household consumption. According to a survey conducted by *Unioncamere Veneto* in the first half of the year, retail sales fell by 5.1% compared to the corresponding period in 2011; the fall off involved both smaller sized retail outlets (-6.5%) and medium and large outlets (-4.6%). According to ANFIA, in the first nine months of the year car registrations fell by 21.5% compared to the corresponding period of 2011; this is in line with the Italian national average.

The trends recorded in the first half of the year were confirmed in the second half.

In accordance with figures obtained by *Unioncamere*, in the fourth quarter of 2012, on the basis of a survey on the Veneto economic situation carried out on a sample of 1,174 companies with at least 3 employees, retail sales recorded a significant drop of -7.8% (-5.1% in the previous quarter) compared to the same period of 2011.

The sharp reduction in consumption affected all segments, but the worst performances were recorded in the retail sales of non-food products and supermarkets, hypermarkets and department stores with drops of -8.4% and -7.9% respectively. The fall in retail figures for food products was less marked (-5.8%).

The increase in sales prices continues (+0.2%), with higher increases in non-food retail products (+0.4%) and supermarkets, hypermarkets and department stores (+0.2%). On the other hand, the non-food retail sales are down (-0.1%) while, with respect to size, the change had a higher increase for the medium and large retail outlets (+0.2%). Orders showed a clear drop of -7.1% in line with turnover (it was -6% in the third quarter) on a yoy basis. As in the previous quarter, the worst performance was recorded by supermarkets, hypermarkets and department stores (-7.9%), followed by non-food retails (-6.9%) and food retail (-4.7%). As regard sizes, the most heavily affected were the medium and big retail outlets (-7.9%). The positive trend in employment figures came to a halt, and there was an -0.5% drop on a yoy basis. Retail sales showed negative performance, with non-food sales (-2.2%) and food (-1.7%). Supermarkets, hypermarkets and department stores were stable. There was a negative change in employment figures for the small outlets (-2.1%) but no change for the medium and large outlets.

Expectations of the business people vary. The balance of those who expected an increase against those who expected a decrease in orders and sales worsened in the fourth quarter of 2012: -55.3% (as opposed to -42% in the previous quarter) and 50.5% (as opposed to -39.2% in the previous quarter) respectively. However, there was a slight improvement in employment expectations which are at -12.3% compared to the -13.6% previously. Sales prices also fell from +10.5% to 7.2%.

The Employment Market

The fall in production put a halt to the recovery of employment levels and led to a renewed increase in the recourse to redundancy schemes. The increase in people looking for work, against stable employment levels, led to an increase in the unemployment rate. According to the ISTAT employment rate figures, people in employment in the first half remained substantially the same as the same period in 2011 (0.3%). The fall in employment in construction (-1.8%) was offset by an increase in agricultural and service sector workers, especially in the areas of sales, restaurants and hotels (5.4%); industrial employment stayed substantially the same (0.2%). Even though the rate is slowing down, the increase in female employment figures (1.3%) continued to grow, favoured by the positive figures in services where there is higher percentage of female workers. Male employment, which is more concentrated in industry and construction, fell by 0.4%.

In the industrial sector, employment in the last quarter of 2012 showed a fall of -1.3% yoy (-0.6% compared to the previous quarter), and mainly involving micro businesses (-2%). With respect to the sectors involved, the worst fall was recorded in the means of transport (-5%), and the timber and furnishings segment (-3.3%). The only sector showing slight growth was the food, drink and tobacco sector (+0.3%).

Friuli Venezia Giulia Region

The recovery of demand of the regional production system that had characterised the previous two-year period came to a halt in the second half of 2011. The economic framework worsened in the first part of 2012: the continued weakness of internal demand was added to a fall in foreign demand in a region characterised by a high level of international trade. The drop in exports, unlike other Northern Italian regions, was marked in some of the main areas of specialisation. A survey of industrial companies made in September indicated a further reduction in fixed investments and pessimistic sales forecasts for the following half-year period.

In the private construction sector and public works, the levels of activity weakened significantly and expectations continued to be negative; the number of sales and purchases in the property market fell by almost a third compared the first half of the previous year. The main indicators showed a worsening of the labour market conditions. Unemployment rates increased and there were less people working, especially in sectors that are more dependent on domestic demand such as commerce and construction; this trend is even more evident in the more fragile categories employing foreign workers, women and young people. The hours allocated under the CIG lay-off scheme also increased.

The fall-off in bank loans, which began at the end of the previous year, continued in the first part of 2012, reflecting the reduction in loans to companies and the stagnation of loans to consumer households. The negative trend is due to both the weakness in demand by companies and families, and the loan issuing policies of banks, which are still selective.

The quality of credit, measured according to the incidence of non-performing loans at the beginning of the period, worsened for companies, while it remained at historically high levels for households. Household and company bank deposits continued to grow, driven by the components that provide a higher rate of return.

The difficulties experienced in the first half were confirmed in the second half of the year. There were 108,530 companies registered as at 31 December 2012, of which 96,418 were operational. The number of companies fell (-1.03%): a tendency that was recorded in all four provinces (-457 companies in Udine, -162 in Gorizia, -388 in Pordenone, -121 in Trieste), and in fact all over the North East of Italy. This seems to be more a structural event rather than one linked to economic trends.

The decrease in companies was mostly in the areas of agriculture, commerce and the more mature manufacturing areas (timber, fabrics), while the mechanical industries, which is the most important in the economic life of the area, has maintained its position of leadership, thanks in part to the innovative measures and transformations made which have always characterised this sector.

Employment in private companies fell. The continued significant uncertainties in the development of the crisis and the fear of its continuing for the next few months is leading companies to take increasingly cautious attitudes with respect to employment. However, the tendency to hire has doubled in export companies and those that invest in the quality of their products and are innovative.

In the last 4 years, the number of companies in traditional sectors fell: -4.8% (Commerce, Agriculture and Fishing, Construction and Manufacturing); only the Service sector grew +4.7%. 1,840 companies initiated insolvency proceedings in 2012: 83% of which “winding up and in liquidation”, 13.8% in bankruptcy, and the rest in insolvency and other procedures.

Industry

According to data processed by the regional *Confindustria*, in the first six months of 2012 fixed cost sales for industrial companies based in Friuli Venezia Giulia fell by 4.3% compared to the same period of the previous year. The domestic component contributed to that figure to a greater extent than the foreign component, with drops of 6.3% and 2.4% respectively. Industrial output also fell by 3.3% in real terms, in line with the drop in demand.

The Bank of Italy carried out a national survey in September that included a sample of 95 industrial companies with registered offices in the region, and at least 20 employees. The survey indicated that turnover was negative in the first nine months of the year: a little more than half of the companies interviewed declared that turnover had fallen, with only a quarter having recorded an increase. The industrial companies were pessimistic about order prospects for the six months following the interview, but to a lesser extent than the export companies. The weakness in demand aimed at the regional production system influenced the capital accumulation process. Companies had expected a slight reduction in investments in real terms for the current year; almost a third of those interviewed in September invested less than they had planned, while over half invested as planned. According to the *Infocamere-Movimprese* figures, the number of active companies in the region fell by 1.1% at the end of the first half of 2012, which continues the trend recorded in the same period of the previous year. This fall was more marked in manufacturing (-2.5%), especially in the timber and furnishings sector and in the metallurgic sector (-3.0 and -3.9% respectively).

Foreign Trade

The slowdown in international trade and the weakness of the European markets contributed to the drop in foreign sales in the main areas of regional specialisation. The value of regional exports at current prices fell by 7.1% in the first half of 2012 compared to the same period of 2011. The fall, which brought a halt to the recovery of the previous two-year period, moved in the opposite direction to trends in the North East and average figured in Italy, which was up by 1.7% and 4.2% respectively. Without considering shipyards, which is characterised by long production cycles, the drop in foreign sales amounted to 4.3%. The most marked decreases involved the machinery and equipment and shipyard industries (-15.6 and -27.9% respectively). In the furnishings sector, foreign sales continued to stagnate, while the iron and steel industry and food industry continued to grow, even though to a lesser extent than the previous year. Non-EU countries, which account for 44.1% of regional exports, showed a more significant drop (-11.0%) which extended to all end markets apart from the U.S. markets and the buoyant economies in Asia. Exports to the European Union fell by 3.8%, but by 7.4% to the Eurozone countries which represent over 40% of the regional total (sales to Germany, which is the main trading partner in the region, only fell by 2.0%).

Regional imports by value fell by 3.8% in the first half of 2012, having grown by an average of 9.4% in 2011.

Construction and the property market

The weakness in both public construction works and private construction continued to prevail; property exchange transactions continued to be rare. In accordance with the figures provided by *Infocamere-Movimprese*, the number of companies active in the construction area reduced in the first half of the year (-1.8%), worsening the drop recorded in the same period of the previous year. The building contractors involved in the economic survey carried out by the Bank of Italy reported significantly reduced levels of activity, and their expectations for 2013 remained negative.

According to the figures from the Public Real Estate Registry Office, residential purchases and sales in Friuli fell 29.7% further in the first half of the year compared to the corresponding period of the previous year (they fell by an average of 4.1% in 2011). On the basis of the figures given, the nominal prices of the properties exchanged have stayed fairly constant in the last two-year period, while in real terms, they continued to fall by 3.2% compared to the corresponding period of the previous year and by 9.0% compared to the maximum levels attained in 2007.

The reduction of the residential property market affected all four Provinces differently. The steepest fall was in the Province of Udine (-30%), followed by Pordenone (-27%), Gorizia (-26%) and Trieste (-13%). This situation is in line with the national residential market that recorded a fall of -22.6%. A comparison of the average residential prices in the Provinces between the second half of 2011 and the first half of 2012, showed a decrease in value on a Provincial basis for almost all the Provinces: -0.5% Trieste, -0.3% Udine and -0.2% Pordenone. Average prices in the Province of Gorizia stayed the same.

In the first three quarters of the year, in accordance with the public works study of the Region, 221 works were commenced for a total value of Euro 124 million; the works started to progressively reduce during the year and their value was reduced to almost half of what was spent in the corresponding period of 2011. In accordance with the CRESME figures, in the first half of the year, there was a reduction in public tenders for amounts of more than Euro one million, indicative of the production levels that may be achieved in the next few years.

Transport

According to the figures issued by the port authorities of Trieste, the volume of goods that moved through the port in the first seven months of the year (25.6 million tons, 70% of which are mineral oils) fell by 7.6% compared to the corresponding period of the previous year. The movement of containers, equal to 246,000 TEU, increased by 15.7%, continuing the strong growth that had begun the previous year. The number of ships also increased by 6.5% while the number of trucks in transit (ro-ro ferry) fell by 5.1%.

Almost 40,000 passengers passed through the port, more than double compared to the same period of the previous year. In accordance with the provisional figures of *Aiscat*, heavy motorway traffic in the section managed by *Autovie Venete* fell by 4.6% in the first six months of 2012. About the same number of passengers passed through the Friuli Venezia Giulia airport in this period (404,000 units), falling by 0.7% compared to the corresponding period of 2011.

The Employment Market

The information available shows a worsening of the labour market conditions. According to ISTAT in the first half of the year, the workers residing in the region (about 505,000 units) fell by 2.5% compared to the same period the previous year.

The fall was steeper than the national decline (-0.3%), and was concentrated in the commerce and construction sectors. The weak market involved both males, and to an even greater extent, females, and was reflected in the employment rates: male employment rates fell by more than one percentage point, standing at 70.7%, and the female one fell by two percentage points, falling to 55.9%.

In the first three quarters of 2012, employment remained at steady levels for industrial companies with at least 20 employees that participated in the Bank of Italy survey; the companies interviewed expected substantial stability in employment levels for the last part of the year. In accordance with *Ergonet* figures processed by the Regional Labour office in the first six months of 2012, the creation of employment, not including domestic and temporary work, which also includes multiple short-term contracts for these people, fell by 6.3%; recruitment fell by over 10% for young people, foreigners and males. The rate of recruitment fell in all the main sectors of the regional economy; more especially, job creation in the construction sector continued to fall steeply (-21.8%).

Flexible contracts were increasingly used, such as fixed-term contracts and employment agency contracts. Open-ended hiring became even more scarce (-35.8%) and made up only 11% of the total.

The workforce decreased by 0.7% on average in the first half, and the activity rate fell from 68.5 to 68.0%. The increase in the number of people looking for work increased from 27,000 to 36,000 units, and this was reflected in the unemployment rates, which rose from 5.0 to 6.7%: this increase included both the male component, which rose from 4.3 to 5.7% and the female component which rose from 5.8 to 8.0%. In the first nine months of 2012, over 17 million hours were authorised under the CIG lay-off scheme, up 4,7% compared to the same period of the previous year. The overtime and exempt component, amounting to 70.0% of the total, fell 4.7%; the ordinary component increased by 36.0%. All the sectors in which the regional economy is specialised in increased the total hours: in the mechanical sector, which has over 40% of the work, the authorised hours increased by 9.9%; in the construction sector (almost 12% of the work), there was a 21.8% increase.

In the timber and furnishing sector (which is almost 15% of the total) the work, while significantly higher than pre-crisis levels, fell back 4.9%. In the sales sector the payment of salary supplements (10% of the authorised hours) rose by 51.9%. According to the regional labour agency in the first six months of the year 4,776 workers were laid off, up by 19,1% compared to the same period in 2011; at the end of the half-year period, the workers registered with the unemployment lists reached almost 16,400 units, about 1,300 more than the end of June 2011. About two thirds of these were workers dismissed from small companies without any payment of compensation in accordance with Italian law 236/1993.

1.1.3. The Banks

While not yet standardized, the terms for deposits for the Italian intermediaries on the wholesale markets have improved slightly thanks to lower pressure on the sovereign debt markets. The growth rate of bank deposits held by resident customers remains high. The unfavourable economic outlook is reflected both by low credit demand by businesses and households and by pressures on what is on offer related to reduced credit quality and the perception of risk by the intermediaries. The gap between the cost of credit in Italy and the average in the Eurozone remains wide.

Between the end of August and the end of November, resident deposits in Italian banks increased by approximately Euro 9 billion. In November, the growth over twelve months rose to 6.8% (4.2% in August); this acceleration reflected the trend in deposits held by non-financial businesses and households.

Due to the lower pressure on sovereign debt, the terms of access to wholesale markets for Italian banks began to stabilize. Some intermediaries made issues that had positive results. Nevertheless, total foreign deposits remained negative: between the end of August and the end of November, net liabilities from reverse repurchase agreements with central counterparts, representing interbank transactions by foreign operators, decreased by approximately 15 billion; non-resident deposits decreased by approximately 10 billion. The use of cash flows from the ECB through refinancing was very limited at the end of 2012 as it had been in summer.

In November, the average interest rate applied to current accounts of businesses and households, representing the main item in the retail deposits, stood at 0.5%, the same as applied in August. The return paid to households on new deposits of up to one year which was particularly sensitive to the pressure on wholesale deposit markets decreased by one-tenth of a percentage point to 2.7%. The return paid on new bond issues fell by approximately one percentage point for both fixed-rate (3.3%) and floating-rate securities (3.1%).

Bank loans to the private non-financial sector continued to decrease; they decreased by 2.6% during the three-month period ending in November (on an annual basis, without considering seasonal factors and the accounting effects of securitizations). This drop mainly affected business loans (-4.0% versus -0.8% for household loans).

Credit performance is influenced by the weakness, albeit subsiding, in demand from businesses and households related to the unfavourable economic situation, the worsening of the real-estate market, as well as the continuing restricted products available.

The qualitative information obtained in the answers given by the Italian intermediaries in the quarterly survey conducted last October by the Bank of Italy on bank credit (Bank Lending Survey) shows that in the third quarter of 2012 the policies for granting loans to companies became slightly more restricted due to the increase in the perceived risk related to the worsening of the economic outlook, both in general and for specific sectors. The latest company studies show that it continues to be very difficult for them to obtain credit from banks, albeit to a lower extent than at the peak of the crisis, but still higher than before the crisis.

The drop in the cost of credit to companies recorded during the first part of the year came to a halt in Summer: between the end of August and the end of November, the average cost of new business loans slightly increased to 3.6%. The increase mainly concerned the rates applied to loans amounting to over Euro 1 million. The indications provided by banks in the quarterly survey on bank credit suggest a connection between this increase and the worsening of the credit quality and strong worries about the risk levels of borrowers. In November, there was a 1.4% gap between the average cost of lending to Italian companies and the average cost of lending to German companies.

On the contrary, the cost of loans to households continued to decrease slightly. The rate of new mortgages decreased by two tenths (to 3.5%) for the floating rate transactions, representing more than two thirds of the overall mortgage loans; it remained unchanged (at 4.8%) for the fixed-rate agreements. Though benefiting from the lower pressure on the financial markets, the decrease in rates was slowed down by the perception of high credit risk by the intermediaries. There is a one percentage point differential compared to the corresponding rates in Germany.

In the third quarter of 2012, the flow of new non-performing loans in relation to loans (without considering seasonal factors and on an annual basis) rose to 2.2%. The rate of new non-performing loans to households remains relatively low at 1.4%, which is the same as at the end of last year. The rate for business loans reached 3.3% and is expected to reach a peak halfway through 2013, and then to drop. Based on preliminary information, during the two-month period of October and November, the overall exposure to debtors reported to have non-performing loans for the first time, increased further. The ratio of loans to businesses going through temporary difficulties (impaired and restructured exposures) to the total amount of loans to this sector reached 7.9% in October (from 7.3% in July).

According to the consolidated quarterly reports of the top five banking groups, during the first nine months of 2012, the ROE (Return on Equity), calculated on an annual basis and estimated net of extraordinary items connected to the write-down of goodwill, increased by approximately one percentage point compared to the same period of 2011, to 3.3%. The banking margin rose by 1.6%: the fall of the interest margin and net commissions were more than offset by the increase in income deriving from trading activities, mainly from the first quarter. Operating income rose by 7.7%, also thanks to the reduction in operating costs. The deterioration in the quality of loans continues to affect the profit and loss accounts: the write-downs of loans increased by 26%.

The capital strengthening continued throughout the third quarter of 2012. At the end of September, the core tier 1 ratio of the top five groups reached an average of 10.8%; the core tier 1 ratio and the total capital ratio stood at 11.5 and 14.3%, respectively. The financial leverage, measured as the ratio of total assets on the balance sheet to the basic shareholders' equity, continues to remain considerably lower than average as observed in a sample of major European banks (19 out of 27).

Supply and demand of credit in Italy

Based on the information obtained from the Italian banks responding to the quarterly survey promoted by the Bank of Italy in the Eurozone (Bank Lending Survey), during the fourth quarter of 2012, the degree of restriction in the criteria used when granting loans to businesses remained unchanged and then eased off in the first survey made in 2013 ([2]). The worsening recorded for all of 2012 can be attributed to the higher levels of risk perceived as regards the economic outlook both in general and for specific sectors or companies.

The restrictions due to factors related to the accounting situation and the ability of the banks to get funding eased off. The tighter policies for granting loans mainly resulted in less favourable price conditions for riskier loans and a reduction in the duration in the term of the loan.

The intermediaries believe that the weakness in demand for loans by businesses is showing signs of improvement, benefiting from a less negative trend in the requests for funds for fixed investments, notwithstanding the overall modest contribution of other factors.

The results obtained from the most recent surveys conducted on companies, although showing a better outlook than those obtained at the end of 2011, indicate that the terms of access to credit became slightly worse: the net percentage of companies reporting more rigid terms rose slightly in December according to both the quarterly survey of the Bank of Italy-Il Sole 24 Ore (from 24.3% to 27.3% in September) and the monthly survey of ISTAT (from 27.3% to 30.1% in November).

As regards loans to households, the Bank Lending Survey shows that even in the third and fourth quarters, the degree of restriction of the criteria used for granting loans did not increase, despite the fact that intermediaries continued to report a slightly restrictive contribution of expectations on the overall economic outlook in general as one of the factors underlying product policies, and with respect to mortgages, the outlook for the residential real-estate market. There was still residual pressure on the margins applied by banks for the average loans and the riskier ones.

According to the interviewed intermediaries, the applications for household loans remained weak, even though they showed some signs of recovery, continuing to reflect the low level of consumer confidence, the unfavourable outlook of the residential real-estate market and the continued weakness in consumer spending.

1.1.4. The financial markets

The relaxed phase for the financial markets that began in the Summer after the announcement of new intervention mechanisms by the ECB on the government security market continued. This phase was influenced by the advances made at a EU level with respect to financial aid to Greece and the agreement on the budget reduction planned for the beginning of 2013 in the United States (so-called "fiscal cliff").

Between the end of September and mid-January, the spread between Italian and German 10-year bonds fell from 365 to 271 base points. A considerable decrease was also noted on short-term maturities. This mainly resulted due to the introduction of the Outright Monetary Transactions (OMT) by the ECB and by the new measures taken at a EU level regarding support to Greece. The significant drop in January benefited from the fiscal cliff agreement in the United States.

The relaxing of pressure on government securities had a positive effect on the private bond markets. From the end of September, the yield differentials between the bonds issued by non-financial Italian companies and the Eurozone government securities considered to be safer fell by 77 base points (this improvement was higher for Spanish companies, by 143 base points and more limited for French and German companies, by 29 and 14 base points, respectively). The average premiums on credit default swaps (CDS) regarding the main Italian banks dropped

[2] The survey involved eight major Italian bank groups; the results for Italy can be checked on www.bancaditalia.it, and those for the Eurozone on www.ecb.int.

significantly (by 147 base points), standing at 323 points, a level which is still far higher than the average level for the main French and German banks (108 and 158 base points).

Net bond issues of Italian banks became positive again in the third quarter (Euro 8 billion). Italian non-financial companies made large net issues (6 billion), fostered by renewed interest by investors. Based on preliminary data supplied by *Dealogic* regarding gross issues only, in the fourth quarter placements by Italian banks decreased on the whole compared to the third quarter (from 16 to 10 billion); however, the issues of bonds not covered by real guarantees (8 billion) recovered, entirely attributable to the four main banking groups.

As of the end of September, the general index of the Italian stock exchange rose by 13% compared to the 9% overall increase in the Eurozone. In Italy, the improvement was mainly due to a decrease in the risk premiums which more than offset the negative effects deriving from the reduction on the expected profits for listed companies. The expected rate variability, calculated from the option prices on stock market indexes, continued to drop. The ratio between current profits and the capitalisation of the listed companies increased by 1 percentage point, remaining above the long-term average level.

The rise in share prices concerned all sectors, with the exception of telecommunications and raw materials (down by 5% and 4%, respectively). The most significant increases were recorded in the banking and insurance sectors (29% and 22%).

In the last quarter of last year, no first listing transaction was made on the Italian stock exchange. At the end of December, the Italian stock exchange included 282 Italian companies, with a total capitalisation of 365 billion (equal to 23% of GDP).

After almost two years of net outflows, the open investment funds (both Italian and foreign) placed in Italy showed net savings inflows for 3 billion in the third quarter of 2012. Due to the ongoing net redemptions of shares in the monetary, equity and balanced segments, there were net subscriptions for significant amounts in the bond and flexible sub-funds segments.

1.2. Banking

1.2.1. Distribution network

Branches

Banca Popolare · Volksbank is a major regional territorial bank operating in North-Eastern Italy. The Company owns a total of 134 branches in the provinces of Bolzano, Trento, Belluno, Treviso, Venice and Pordenone.

Surveys on the brand name “Banca Popolare · Volksbank” conducted during the year show that even in new areas, where the Company was not present until a few years ago, a good level of visibility has been achieved through a density of branches reflecting our strategy based on our having strong roots in the territory.

Following a period of great expansion (2008 and 2009) and two years of consolidation (2010 and 2011), the distribution model was unified in 2012 and a new branch was opened in the Renon area (Bolzano).

Banca Popolare · Volksbank has more than 169,000 private customers (including about 29,000 young clients) and a little less than 16,000 business customers, as well as approximately a further 4,000 customers mainly from the public sector and associations.

Customer breakdown (no. of customers)	**31.12.2012**	**31.12.2011**
Private (incl. young clients)	**169,089**	**165,305**
- of which Retail / Universal (incl. young clients):	*158,586*	*155,098*
Businesses	**15,559**	**15,384**
- of which Small Businesses:	*14,201*	*14,072*
Other (public administration, associations…)	**4,236**	**4,158**
Total	**188,884**	**184,847**

Following the introduction of the new distribution model also in the Venice area, Banca Popolare · Volksbank now has a unified commercial structure for the whole market. The lead branches, along with the branches assigned to them, manage a specific micro territory within the area; on the other hand, high-end private and business customers are managed by highly qualified consultancy centres that manage the whole area.

A new branch as opened in Renon in December 2012, expanding the network in Alto Adige. We were encouraged to open a branch in Collalbo mainly based on the positive experience with our local customers and the favourable economic situation of Renonnelle.

Territorial distribution of branches	31.12.2012	31.12.2011
Trentino-Alto Adige	**84**	**83**
- Bolzano	64	63
- Trento	20	20
Veneto	**47**	**47**
- Belluno	21	21
- Treviso	13	13
- Venice	13	13
Friuli Venezia Giulia	**3**	**3**
- Pordenone	3	3
Total	**134**	**133**

The retail network

Consultancy services and customer support form the bedrock of the retail network of Banca Popolare · Volksbank. The aim to provide best support to all customer groups 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.

Distribution channels (no.)	31.12.2012	31.12.2011
Traditional branches	133	132
Bank4fun branches	1	1
Corporate consultancy centres	7	7
Private consultancy centres	7	7
ATM	153	149
POS	4,168	3,842
Total	**134**	**133**

Customer support for the most important and demanding customers is provided through “Private Banking” (high-end customers) and “Corporate Banking” (high-end companies), mainly at special consultation centres at bank branches. They provided highly specialised consultancy with the support of special tools. Instruments, such as the new consultancy system for performing investment services which was introduced in 2011 and further enhanced in 2012 for the private customers, provide considerable support to consultants by enabling them to follow the more sophisticated needs of high-end customers. In 2012 work also continued on consolidating use of the CRM system (Customer Relationship Management) in the retail network. 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. Additionally, the software helps consultants carry out campaigns of potential customers picked centrally to achieve various commercial goals.

Based on the positive experience of recent years, also in 2012 events were organised under "Banca Popolare · Volksbank meets entrepreneurship", where the Bank opens up a dialogue with entrepreneurs and company 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.

Virtual banking

2012 was the year that ultimately sanctioned the "digital" development strategy of Banca Popolare · Volksbank. Thanks to introduction of the remote digital signature service, customers can sign bank agreements without having to actually go to the bank. The remote digital signature can be activated online within one's own direct b@nking using a certified process and in compliance with the regulations in force. At the same time, an ATM card can be purchased or a prepaid debit card or a personal "e-credit" personal loan can be accessed by digitally signing a specific agreement. The purchased card will be sent to the address specified by the customer at the time of purchase. It is therefore a new frontier in the distribution strategy aimed at both optimising internal processes and supporting the changing needs and trends of customers who are increasingly less willing to physically go to the bank and increasingly more used to the e-commerce experience.

In order to take advantage of any developments in the technological world and to satisfy the widespread need to access the banking services from anywhere, a specific app for Apple iPads was designed. Thanks to this app, customers can control their current accounts in a more practical and interactive manner through various touch-oriented functionalities, such as tapping, swiping etc. A public section offers institutional contents and company news, while customers con look up and use their accounts, make payments and top-ups in the restricted area. Moreover, in order to protect the confidentiality of the information shown on the tablet, assuming that it will be used on the move, but wishing to hide it from prying eyes, a privacy function was created allowing full operation while blocking balances and sensitive data.

Many innovations were also introduced for the business sector. One of the most significant innovations for customers was the introduction of the European service for submitting and cashing payment orders (SDD, Sepa Direct Debit), which will substitute the current RID service as of February 2014. In addition, within the Europeanisation process of banking services, an agreement was signed with an Austrian bank, involving the intermediation of customers and the combined use of mutual products of corporate banking.

1.2.2. Products

Basic products

Restyling the range of accounts continued also in 2012 with a view to expanding and strengthening the products available to corporate customers. To this end, in the first half year the Conto Business Forfait line was introduced, involving five product versions for different commercial targets and maximum activity volumes; each solution is tailored on the specific needs of the individual corporate customer. The youth offering includes the reviewed Conto Uni, which now satisfies new customers' requirements in tune with the needs of young customers needing a streamlined and inexpensive bank account, accessible from anywhere and subject to fewer taxes.

In order to more fully meet the needs of the growing group of customers carrying out bank transactions mainly using virtual channels, innovative communication facilities related to current accounts were virtualised and made available through the e-post function.

In accordance with the new regulatory provisions introduced by the Monti decree, the Company had to make two significant changes. Firstly, the introduction of the so-called "basic accounts", i.e. products aimed at financial inclusion that represent a powerful instrument for full participation by all consumers on the market. In line with its consortium and cooperative nature, Banca Popolare · Volksbank is now the only bank operating in the area to offer all the products required by the regulations free of charge. Secondly, adjustment of the disclosure systems to all the tax innovations introduced, whereby the stamp duty on current accounts and savings accounts rose from Euro 73.80 to Euro 100.00 for legal entities, and was set to Euro 34.20 for individuals for both products, where there is an overall average balance equal to or higher than Euro 5,000 per single customer.

Loans

In the first half year of 2012, Banca Popolare · Volksbank translated the directives of art. 117 bis of the consolidated bank act ("TUB") concerning cash remuneration and related over-runs. The objective was to comply with the regulations and supply accurate information to customers.

Moreover, our collaboration with our Leasing partner ALBA Leasing S.p.A., which has always proved to be a very reliable partner, was renewed. This is why our renewed collaboration can be considered as highly positive. Leasing is a valid lending alternative for our corporate customers, especially as far as tax benefits are concerned.

Notwithstanding the current difficult economic situation, Banca Popolare · Volksbank follows a supportive policy for companies and tries to establish the highest level of collaboration with institutions, category associations and local credit guarantee consortia.

In particular, access to credit for businesses was facilitated thanks to the agreements underway with various guarantee consortia, as well as the agreement signed with the regional guarantee consortium for trades.

With regard to facilities for businesses, the circulating fund operations managed by Veneto Sviluppo and the Bolzano province continued, which involved the granting of subsidised loans to SMEs.

With regard to the private customers, the development of both existing and new Internet tools was intensified. This has not yet been completed and will continue throughout 2013. More specifically, the home mortgage tool will be improved and integrated with other accessory tools.

Insurance

We focused our attention on the growing demand for insurance coverage in 2012 and on the needs presented by our customers in the consultancy phase.

In accordance with our customers' requests, we then decided to further focus on the development and improvement of insurance products already placed.

This led to the introduction of new guarantees and cover to complete the policy offers including "Casa Oggi", "Care4U" and "Tutto Tondo".

As regards the household policy "Casa Oggi", the new features include fire coverage for buildings, including with the absolute first risk formula, the increase to Euro 2 million of cover for third party liability and the option of including insurance against theft for the first time ever.

The individual accident policy "Care4U" also includes interesting guarantees, such as "daily allowance for temporary disability" and "medical expense refund for accidents"; the product will therefore meet all the customers' needs and will place our commercial offer in line with those available on the market.

Finally, the "Tutto Tondo" obligatory car liability insurance allows the customer to benefit from advantageous discounts even where there is a standardized product. This advantage was further enhanced for Shareholders who will be able to apply a 15% discount starting from October on the car liability insurance guarantee premium.

A "Credit Protection Insurance" product was introduced to add to the policy package, and covers the loans issued; this is especially advantageous and designed especially for personal loans of up to Euro 15,000.

We should also note the positive results from the pension planning product, where the subscribers to the open pension fund placed by Banca Popolare · Volksbank increased by 26% in 2012, proving the high quality of the pension planning consultancy provided thanks to support from the “My Plan” tool.

This sophisticated system used to analyse pension requirements made it possible to customise the solutions for the customers, and thanks to this the excellent results reported above were obtained.

In addition to the development and improvements listed, we should also note the challenging work carried out to adapt the products placed to the extensive new legislation introduced and the ISVAP (Italian insurance supervisory board) regulations which came into effect during the year.

In accordance with Italian law no. 27 of 24/03/2012, the contractual forms of the Credit Protection Insurance products had to be reviewed, which cover the loans granted, while due to the ISVAP provision on “conflict of interests”, the contractual forms and sales policies of the “Casa Oggi” policies covering buildings and on the Term Life Insurance had to be reviewed.

More specifically, in order to comply with the new provisions, a product called “Casa Oggi Mutui” was introduced, to be used only to cover fires and other damage to buildings, and for which a bond in favour of Banca Popolare · Volksbank is required.

Finally, but no less important, we should point out the significant training given to the consultants, who are in contact with customers on a day to day basis, and therefore need continuous updating and support in order to be able to respond effectively to the questions asked, and to be able to propose the most suitable products in accordance with specific customer requirements.

The constant and continuous training provided in 2012 ensured that 697 workers obtained the obligatory certification to place insurance products.

Product 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 Management service developed a new integrated multi-channel concept during 2012. The radical transformation taking place in the company, increasing awareness of the ever growing needs of the customers, and the technological challenges presented nowadays meant that an in-depth analysis had to be made on sales strategies and the current sales structures of Banca Popolare · Volksbank. The task was to compare customer behaviour as an element of the company (demand) with the bank behaviour (offer) in order to measure the meeting point due to the many ways possible for the two parties to interact. The work concluded by drafting a staff development plan that will aim towards the increasingly perfect convergence between the Company’s strategy, aimed at innovation and multi-channelling, and customer development. This is to guarantee an adequate response for the customer needs on the one hand, and on the other, to avail of all the opportunities offered by technological development, which may also act as a guide for the customers in the digital age.

1.2.3. Finance Segment

In a market environment characterised by significant uncertainty and volatility, the financial service segment operated with professional competence, balance and transparency, with the intention of optimising the return on the assets invested in financial instruments, while minimising the risks at the same time.

On the one hand the work aimed at strengthening financial management with instruments capable of providing investment services continued throughout the year, also with a view towards providing advanced portfolio consulting services to the customer.

This will be organised into the following main phases: detailed analysis of the initial customer portfolio, association of a model portfolio on the basis of the specific goals stated by the customer, formulation of portfolio optimisation proposals aimed at aligning the initial portfolio with the model portfolio agreed with the customer, and continuous monitoring over time. This new service will be aimed at the private customers in the initial stage, to then be progressively extended to the other customer segments, and will be supported by a specific computer platform integrated with the other Finance Division sub-systems.

Products and investment services

The Banca Popolare · Volksbank offers specific, professional consulting services through its Private Banking brand, to about 9,000 customers in three regions. The Wealth management service also provides expert consulting services to private managers upon request. The service includes but is not limited to the following: portfolio analysis and assistance in choosing products (including insurance products) and a fund and asset management analysis, in addition to a series of other services that can assist in the choice of investment.

A significant portion of the work is aimed at identifying and obtaining a detailed understanding of the customer requirements in order to optimise the investment portfolio.

The portfolio is defined in accordance with the customer's investment profile which is evaluated on the basis of the customer's risk appetite, awareness of the financial instruments, the time period and asset situation at that time. The risk/return ratio must be balanced. The consultancy service aims to provide a solid, diversified portfolio since the consultant's job is to provide the customer with all the information, without making any investment decisions for the customer.

The range of investment instruments that we offer our private customers is expanded every year, for example also regarding both Italian and foreign asset management companies.

Banca Popolare · Volksbank has been an ordinary member of the Italian Private Banking Association (AIPB) since 2010. It joined this association in order to develop its private banking services further.

Banca Popolare · Volksbank has collaborated with the *Istituto Centrale Banche Popolari Italiane* (Central Institute of Italian people's banks) for the last three years. This partnership mainly involves the composition and structure of the model portfolios, in addition to the analysis and indication of individual financial instruments to recommend to our customers. At a more general level, for all customer segments, an integrated consultancy software is being developed which allows us to provide the following high added value services:

- processing and analysis of the information gathered
- current portfolio analysis and analysis of the financial instruments held by the Customer in terms of risk and return
- analysis of portfolio exposure in terms of financial asset class types
- definition of a risk profile that is suitable for the Customer
- definition of a customised strategy proposed by the Company and chosen by the customer
- assessment and evaluation of the transactions already carried out by the customer and not yet matured
- setting up a portfolio and financial instruments that are suitable for the Customer
- setting up an investment proposal
- provision of customised recommendations
- illustration and explanation of the reports produced

Using a specific, independent consultancy contract for the Upper Private customers, Banca Popolare · Volksbank provides extra quality to its consultancy and customer management services.

Liquidity Management

In 2012, in accordance with the provisions of the industrial plan and in relation to the maturities of securities issued with institutional investors, and in accordance with developments in liquidity requirements, the Company joined the Long Term Refinancing Operation ("LTRO") proposed by the European Central Bank for Euro 300 million in March. The liquidity received was used to cover the main maturities for the year, including the maturity of a bond placed with institutional investors, and for year-end fiscal maturities. In addition, one loan only was placed for a nominal value of Euro 1 million, and the line decided on by the European Investment Bank was partially liquidated for Euro 41.785 million. No new issues were made within the scope of the EMTN plan.

In order to ensure adequate refinancing opportunities with the European Central Bank, the Company holds government securities in its portfolio along with other instruments that can be refinanced. Two bonds guaranteed by the State for a total of Euro 250 million were issued in 2012 and subsequently repurchased.

In order to expand the range of eligible instruments, loans issued to SMEs were securitized with eligible Asset Backed Securities for a nominal amount of Euro 613.4 million in 2012. All the securities issued by the SPV (Special Purpose Vehicle) were repurchased by the Company.

The Company had full confidence in the operators even though the it is a particularly complex, uncertain operating environment at the moment, due to a good reputation built up over the years. A portion of the funding was purchased on the interbank market.

The net liquidity position from the interbank relations at the year-end showed a debt balance of Euro 615.0 million.

1.2.4. Equity investments in subsidiaries and companies subject to significant influence

Within the scope of rationalising equity interests, the subsidiary Voba Invest S.r.l. in liquidation sold the Company its equity interests in the companies Quartiere Brizzi S.r.l. and Acquazzurra S.r.l. in December.

The equity interests acquired are described in more detail in the notes to the financial statements, and will be managed directly by the Banca Popolare · Volksbank structures.

Casa di Cura Villa S. Anna S.r.l.

The Company manages nursing homes, and has its registered office in Merano (BZ). Its company purpose is to provide excellent health services, with the main aim of protecting health. It does this in accordance with the following:

- encouraging professional growth and greater awareness of interpersonal relationships in the medical, paramedic and administrative team;
- ensuring that the medical team have had proper training and are kept up to date;
- maximum attention when hiring highly qualified professional staff, especially the medical team and paramedics;
- maintenance of adequate levels of investment in order to ensure adequate equipment and environments.

Banca Popolare · Volksbank hold a 35.00% interest in the share capital.

Acquazzurra S.r.l.

The business purpose of the Company is the purchase, construction, restructuring and sale of properties; its registered office is in Verona. Currently it is at an advanced stage in the construction of a residential property complex in the centre of the city of Pordenone.

Banca Popolare · Volksbank acquired a 48.98% interest in the share capital of the company in 2012. The amount paid was Euro 2.8 million, including a shareholder loan for an original amount of Euro 350 thousand in order to strengthen the capital base of the company. The price paid was fully attributed to the equity investment, which is therefore recorded in the financial statements for a total value of Euro 2.8 million.

Quartiere Brizzi S.r.l.

The business purpose of the Company, with registered office in Chienes (BZ), is property dealings, including the purchase, sale, exchange, renovation and leasing of lands, buildings, prefabricated structures, infrastructures and property in general. The company is currently developing a property product which involves the demolition of a dilapidated property complex and building a new residential building in the centre of Verona.

Banca Popolare · Volksbank acquired a 48.5% interest in the share capital of the company in 2012. The amount paid was Euro 0.6 million, including a shareholder loan for an original amount of Euro 1 million in order to strengthen the capital base of the company. The amount paid was fully attributed to the equity investment, which is therefore recorded in the financial statements for a total value of Euro 0.6 million.

1.2.5. Research and Development Activity (R&D)

Banca Popolare · Volksbank does not normally carry out research and development since it is a bank. Therefore, there are no intangible assets or charges related to this type of activity. The research and update of products, in order to provide a complete, competitive product range compared to our main competitors, and the review of procedures and internal processes in order to ensure adequate functioning of the operating structure, do not involve the creation of new products, services or processes, or significantly improve ones that are already on the market, since - strictly speaking - they do not result from research and development. Similarly, there was no intellectual type work carried out (patents, copyright, etc.) that could be recorded as independent intangible assets in the financial statements.

1.3. Economic, Financial and Risk Management

Credit risk

Credit risk is the total or partial risk of insolvency of a key counterparty and constitutes the Company's main risk factor, in accordance with its own retail nature as a bank geared towards retail customers and small to medium enterprises.

Therefore, the credit strategy of Banca Popolare · Volksbank, on the one hand, aims to continuously improve loan allocation procedures in order to become compatible with underlying risks, and on the other hand to forecast possible impairment of solvency for key customers through increasingly effective and reliable monitoring systems.

The credit risk policy was approved at the end of 2011, and subject to its annual review in December 2012. Credit risk was managed in accordance with the Policy objectives in 2012. This document defines in full the guidelines for managing all forms of credit risk as defined in the more general risk Policy (risk related to insolvency, change in degree of solvency, exchange rate exposure, loans portfolio concentration, remaining risk). More specifically, the document governs:

- the definition of risk propensity and scope of application, with explicit mention of the 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;
- the 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;
- the model for determining the likelihood of official default in the loans portfolio and quantifying expected and unexpected loss;
- the effects of credit risk on the assets and balance sheet of the Company and therefore: determining the asset requirements for credit risk (pillar I); regulatory and internal limits for risk concentration (pillar II); criteria adopted for value adjustments on impaired loans.

From an operational point of view, the credit monitoring process 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, the system streamlines the internal process for classification and management of problem customers, in turn ruled 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 addition to the usual risk classes for impaired loans established by the supervisory board (past-due, substandard, watchlist, restructured, and non-performing loans), the system also anticipates two classes 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 was reduced to 90 days.

In order to improve the quality of credit and minimise risk, the following measures were introduced in 2012 as part of the granting, monitoring, and periodic reviewing processes involved in lending:

- more timely evaluation of industry risk at the time the credit-facilities are being requested: in addition to evaluating the information on the individual companies and their management, it is important to also analyse the economic context in which the company operates (commodity sector, competitors, etc.). The analysts have been provided with both internal and external sources to check this type of information;
- review of the IT procedures used to analyse the financial statements, which has been upgraded by the addition of two modules used to analyse cash flows and short-term financial requirements; there is also an analysis of invoices, medium-long term requirements and the "what if" scenarios (pure liquidity forecasts for the first year);
- full review of the computer file for the credit lines, which introduced numerous improvements to the preliminary assessment procedures for credit line facilities (increase in data quality, assistance to the analysts during the entire process, management of the obligatory or optional documentation, option to obtain a clearer and more structured analysis of the requests by the internal decision-making bodies;
- publication of the credit facility preliminary assessment manual, which duly describes all the processes involved in granting a credit line - from receiving the request for a credit line up to the decision - and aimed at all the workers and corporate and supervisory bodies of the Company with the aim of making them aware of how the preliminary assessment stage is carried out along with the "sound and prudent management" principles on which the procedures are based;
- new definition of expiry review for significant credit line positions, reduced from 1 year to 6 months;
- option to make new information queries to the Bank of Italy Central Credit Bureau, available to the internal offices to make a more in-depth evaluation of the customer-risk;

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. Therefore, the entire mortgage portfolio was twice put through a geo-referencing revaluation process by the company Nomisma in 2012 in order to estimate the real-estate value situation and the suitability of such value regarding the credit it covers.

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 Board of Directors plays an important role as a fundamental tool to monitor performance of the credit company and related risks, and to monitor adherence to objectives and compliance with guidelines defined in the 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. Also in 2012 the structure and quality of information was partially revised to make it more accessible and meet the needs of management.

A report will also be drawn up on a monthly basis starting from December 2012, and it will contain the essential information on the composition and overall risk level of the credit portfolio.

The control of credit risk will be dealt with on a quarterly basis by the Credit Risk Committee, which, among other things, will also make a detailed analysis of the aforesaid quarterly report and the situation regarding the main non-performing positions.

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 · Volksbank therefore measures market risk as changes in the value due to market fluctuations.

Banca Popolare · Volksbank 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 historic simulation approach is used with exponential weighting applied to the Murex computer platform which, since 2009, forms the integrated computer treasury procedure at Banca Popolare · Volksbank.

In 2012 all critical situations in the use of daily, weekly and monthly operating limits were expressed in terms of VaR.

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 standardized 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.

Counterparty risk

It is the risk that a counterparty to a transaction does not fulfil its obligations with the methods and within the time limits envisaged by the contract.

Counterparty risk is governed by a specific system of operating limits, based on a range of creditworthiness separate evaluation criteria of the counterparties in accordance with the type (corporate or financial). The general rules whereby all financial transactions must be followed exclusively by trusted counterparties also apply.

Each counterparty’s limit is decided on by the Board of Directors, and may be used by the Treasury and Investment services on the basis of specific percentage quotas of the limit itself, attributed to standard categories of financial instruments.

On the basis of the provisions in the financial policies, the new authorising process for the grant of credit facilities for the use of the Treasury and Investment services was implemented in 2012. Among other things, this provides for specific decision-making procedures, on the basis of the amounts requested and the creditworthiness of the counterparties, with the involvement of the Credit management and the Credit Committee, who have decision-making powers and the Risk Management service which provides mid-level opinions. The criteria and limits to evaluate the creditworthiness of the counterparties were expanded, reviewed and adjusted to current conditions of the financial markets.

Interest rate risk

With regard to the banking book, which corresponds to the 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 investment policy is therefore focused on optimizing interest rate margins and minimizing 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 2012 the Company 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.

Checking and managing interest rate risk is discussed by the Internal Finance Committee on a weekly basis and by the Finance Committee on a monthly basis. These meetings a specific monthly report is submitted by the risk management department (ALM report). The report was expanded in 2012 with a fixing analysis, which allows the amounts of the most significant financial statement items subject to rate changes to be illustrated on a day by day basis, and also to be separated out by indexation parameters. This also allows the natural hedging of the banking portfolio to be effectively monitored, both in time-related terms and in terms of amounts, between the asset and the liability items.

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 also in 2012.

Liquidity risk is the risk that the Company might not be able to meet its own payment commitments at the due date and/or fund increases in its company. 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).

Liquidity is managed in accordance with the instructions and operational guidelines contained in the liquidity policy, which is a constantly updated document. 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 or systemic shocks in the 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, including 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 Company decisions, or flows independent of the intent of the Company, typically attributable to 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 five different operational situations resulting from progressive deterioration of the liquidity position: normal operations – which in turn are separated into categories of compliant, under observation and attention - stress situation (emergency) and crisis (critical emergency).

The Treasury service, which manages liquidity, also uses the so-called liquidity synoptic panel, which is a daily report providing a concise yet thorough description of the short/medium-term liquidity situation, thereby enabling the company to quickly identify critical situations and control indicators.

In 2012 the analysis of liquidity did not show any short-term or long-term situations that would cause concern, despite the low confidence between operators and especially in consideration of the country risk given to several countries in the Eurozone, such as Italy.

The liquidity 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 provisions by the European Central Bank and the Italian government. A specific securities portfolio was set up in 2012 for this, in order to act exclusively as a reserve for liquidity management, and for which separate investment rules were identified that are more prudent than the normal trading portfolios in terms of duration, sector, issuer risk, eligibility, etc.

Operational risk

Unlike credit and market risks, which the Company inevitably assumes while being remunerated for such risk, operational risk may generate losses without any compensation being received by the Company. 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, causes that may result in operational losses are studied and events are systematically detected and measured to limit and reduce the risks in question.

In line with Basel Committee definitions, Banca Popolare · Volksbank 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 · Volksbank 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, employed by the Company, 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 collection of data on operating losses is based on an internal notification process 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, customer complaints, disputes with staff, etc.

The collection and systematic analysis of this information in latest years provided valuable inspiration and suggestions to assess and optimize processes and activities.

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

In addition to the decision to calculate the capital requirements necessary to deal with operating risks via standard methods, numerous initiatives were undertaken in 2012 to improve the general level of monitoring operating risks, including the following:

- implementation of an overall self-evaluation process on the operating risk management system, aimed at evaluating the general quality of the system in accordance with the organisational structure, evaluating the exposure to operating risks on a comprehensive level, evaluating the compliance of the system with prevailing law including in relation to the requirements related to adoption of the standardized method, evaluating the effectiveness of the system in relation to the objectives and the programmes of the Strategic Plan in effect and development of the reference markets;

- implementation of rules to ensure the correct allocation of operating losses among the different business lines;
- the introduction of an internal control committee within the scope of the internal control system, with the aim of coordinating all the control functions, sharing the intervention limits, sharing the results of the assessments, directing the corrective actions towards the operating structures, developing and spreading the control mentality within the operating structures.

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 company 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 loan portfolio was activated.

The various forms of concentration risk are also monitored in the quarterly credit report, and discussed at the quarterly meetings of the credit risk committee.

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 · Volksbank 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; in order to oversee such risk, the Rules for Public Disclosure and Reputational Crisis Plan were drafted.

1.3.1. Rating

Standard & Poor’s gave a BBB+/Negative/A-2 rating, with a negative outlook to Italian sovereign debt, as part of its downgrading of nine countries in the Eurozone on 13 January 2012. It stated that it did this in view of its consideration that the economic policy interventions made by European policymakers were insufficient to deal with the prolonged situation of uncertainty in the Eurozone.

Following the downgrade of the Italian sovereign debt, the agency lowered the rating of 34 Italian financial institutions on 10 February 2012, including the Banca Popolare · Volksbank, which was assigned a BBB/Watch Neg/A-2 from BBB+/Negative/A-2 rating.

On 3 August 2012, as part of further rating revision of 32 Italian banks, Standard & Poor’s lowered its rating of Banca Popolare · Volksbank to BBB-/Negative/A-3. The reasons given to justify this downgrade were that there was a higher credit risk for the Italian economy and for the banks, and it was due to its review of the economic risk associated with

Italy, for which the agency stated that it predicted that the recession would go deeper and last longer than had earlier been expected.

The ratings agency Moody’s lowered its rating of Italian sovereign debt from A2 to A3 on 13 February 2012. Italy’s rating was further lowered on 13 July 2012 to Baa2, with a negative outlook.

On 15 February 2012, the agency stated that due to its downgrade of Italy’s rating, the Baa1 rating previously assigned to Banca Popolare · Volksbank would be confirmed, however improving from a negative outlook to a stable outlook.

On 14 May 2012, Moody’s lowered the rating of Banca Popolare · Volksbank to Ba1, with a negative outlook. A total of 26 Italian banks were downgraded, with the agency giving the following reasons, which apply with varying levels of intensity to the banks involved:

- the increase in adverse conditions, along with the re-entry of the Italian economy into a recession, and the reduction of short-term demand following the austerity policies put in place by the government;
- the increasing critical nature of the quality of assets and weakening of earnings due to the worsening of credit and the resulting need to increase provisions;
- reduced options to access funding on the markets, which, if this continues, will put further pressure on bank assets, weakening positioning and profitability.

1.4. Supervision, Oversight and Support

1.4.1. Strategic Plan

On 20 December 2012, the Board of Directors decided on the 2013 - 2015 strategic plan which identifies the guidelines and actions to take over the next few years:

- *Optimisation of liquidity and capital.* It is very important to strengthen operating liquidity management and capital strength in this context. The Company's objective is to maintain an adequate level of regulatory ratios by strengthening core capital and by introducing, where allowed, alternative forms of capitalisation. In terms of quantity, capital ratios are kept at levels that make it possible to ensure the best assessments by rating agencies.
- *Wide-ranging initiatives to manage risk.* The 4-level risk allocation framework was confirmed. Improvement of the internal control system must be done by strengthening the efficiency and effectiveness of the control system on 3 levels, by increasing the synergy between the control functions, simplifying and coordinating the information provided to the governing bodies, and developing and propagating the control mentality within the operating structures;
- *Full realisation of customer potential in order to increase commercial productivity/profitability.* In addition to the commercial actions to be taken, the virtual distribution channels will be consolidated in order to free up space for consulting;
- *Improvement of behaviour and interpersonal relations of the human resources.* Human resources will be trained in order to increase the managerial skills of the managers in particular, improving engagement levels and motivation of the other workers;
- *Development of corporate culture.* It is very important to develop the corporate culture in order to implement our strategies, based on dialogue, values, and vitality;
- *Cost rationalisation and operational processes* It is necessary to have a streamlined, efficient organisation in order to keep costs down. Therefore low added value operations will be switched towards virtual channels.

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 the business areas is kept high and diversified by offering a wide range of bank, financial, pension and insurance products.

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 Company 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.

Growth is therefore made possible by improving efficiency through streamlining and rationalisation of production and disclosure processes.

Certain guidelines were determined in order to orient the company in a targeted manner, give internal resources more responsibility 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 Company 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 develop relations with shareholders and to extend its customer base while keeping to the spirit of mutual interest and cooperation that characterises the Company;
- 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.

1.4.2. Corporate Governance

<u>Changes to the articles of association</u>

The extraordinary shareholders' meeting held on 17 April 2012, upon proposal of the Board of Directors, cancelled the 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 · Volksbank. At the same time, pursuant to articles 2524, 2420-ter and 2443 of the Italian Civil Code, the Board of Directors was assigned the right to:

a) issue, for payment, in one or more tranches, by 31 December 2016, a share capital increase up to a maximum total amount of a nominal Euro 10,000,000 (ten million) by issue of up to a total maximum number of 5,000,000 (five million) ordinary shares with a par value of Euro 2.00 each, to be offered as an option to the shareholders and any holders of convertible bonds of Banca Popolare · Volksbank
b) issue, establishing the terms, in one or more tranches, by 31 December 2016, a debenture loan up to a maximum total amount of a nominal Euro 100,000,000 (one hundred million) in bonds and/or warrant bonds, that can be converted into ordinary shares of the Company, to be offered as an option to the shareholders and any holders of convertible bonds of the Company, with a resulting share capital increase in tranches to fund the conversion.

<u>Organisation of the Shareholders' Meeting, Electronic Voting</u>

Once again, the Shareholders' Meeting held on 17 April 2012 adopted electronic voting procedures to vote for lists of candidates. 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.

<u>Remuneration Policy Update</u>

In order to implement the EU legal framework and with the abrogation of the previous supervisory law, on 30 March 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.

The regulations governing the new remuneration policies, drafted by the Board of Directors on 22 July 2011, were submitted for decision to the Shareholders’ Meeting held on 17 April 2012, in accordance with the instructions given at the Shareholders’ Meeting of 27 April 2011 to the Board of Directors.

Among other things, the new rules:

a) 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 Company’s risk profile;
b) Indicating ratios for applying supervisory rules;
c) Indicating parameters for correcting results and defining criteria for revising deferred bonus amounts.

Management of Conflict of Interest and Transactions with Related Parties

The “Risk assets and conflict of interest with respect to related parties” Rules decided on by the Board of Directors on 22 June 2012, which govern transactions with Related Parties, give a detailed illustration of the procedures that Banca Popolare · Volksbank intends to apply with respect to Transactions with Related Parties in accordance with prevailing Consob and Bank of Italy regulations.

The aim is to govern identification, approval and enforcement of Transactions with Related Parties and to ensure compliance that the prudential limits that apply to the Risk Assets are being complied with. The Rules aim to monitor the risk that the closeness of these parties to the decision-making processes could compromise the objectivity and impartiality of decisions with respect to loans granted and other transactions with these parties, potentially distorting the procedures followed in the allocation of resources, exposing the Company to risks which have not been adequately measured or monitored, and potential harmful to depositors and shareholders.

The procedures and rules to manage, communicate, control and give notice of the following transactions were therefore defined and formalised into this single set of Rules:

- transactions with related parties put in place by the Company in order to ensure the transparency, substantive and procedural fairness of said transactions and to establish how to carry out the related disclosure obligations, including those provided for by the law and prevailing regulations that apply (CONSOB Regulation);
- transactions with related parties (related parties and parties connected to them) put in place by the Company in order to ensure compliance with the prudential limits for the Risk Assets and the substantive and procedural fairness of said transactions (provisions of the Bank of Italy), providing for the most restrictive obligations, procedures and definitions from those specifically provided for under the CONSOB Regulation and those of the Bank of Italy.

To ensure compliance with authorisation, disclosure and reporting procedures towards supervisory authorities, as of 1 January 2011 the Company implemented IT systems for automatic acquisition and notification of agreements and transactions undertaken with any counterparties defined by the company rules concerning risky operations and conflict of interest with related parties.

The IT application was developed and improved throughout 2012 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.

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. In this context, 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 in compliance with the supervisory provisions and were amended into the version approved by the Board of Directors on 23 March 2012. They especially take into account the rules on company organisation structure.

A project was implemented in 2012 to review the overall corporate governance organisation of Banca Popolare · Volksbank in view of recent regulatory developments and the organisational changes made within the Company. More specifically, it was confirmed that the entire documentary framework on corporate governance is compliant with prevailing law, and more generally, the documentation as a whole is consistent and provides a clear, organised picture of the current corporate governance.

The Articles of Association were subject to review in accordance with best practices in the sector. The amendment project was subject to control by the Supervisory Board, and subject to its authorisation, will be decided on at the 2013 Shareholders’ Meeting.

The remuneration and incentive policies of the Company were updated in view of the new remuneration structure. When redefining the remuneration structure, the Board of Directors reviewed the following aspects in addition to the requirements for compliance with the instructions given by the Supervisory Board:

- size e nature of Banca Popolare · Volksbank;
- governance structure;
- the reference market;

The remuneration model review project provides for a remuneration structure for directors balanced between fixed and variable components; the variable components will apply to the executive functions.

Rules on the remuneration and incentive policies of the Company and the new remuneration model for the directors and key personnel will be subject to decision by the 2013 Shareholders' meeting.

Administrative Liability under Italian Legislative Decree 231/01

Italian 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 in Italy.

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) is laid as a criminal charge and 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 for administrative offence when it pre-emptively adopted and effectively implemented a suitable organisation and management model to prevent such offences and set up an independent body for that purpose (so called 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 · Volksbank, which was fully revised and approved by the Board of Directors on 21 December 2010 and further amended following new provisions dated 27 January 2012 and 25 January 2013, complies with the specific prescriptions laid down by Italian Legislative Decree 231/2001.

With its adoption Banca Popolare · Volksbank 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 Company or to its benefit, shall be considered in line with Company policy;
- prevention and continuing control, which should guide all decision-making and operations.

The organisation model of Banca Popolare · Volksbank consists in identifying activities exposed to risk (i.e., those involving offences under Italian Legislative Decree no. 231/01) and implementing a group of organisation measures and rules for all parties working in the interest, to the benefit or on behalf of the Bank, in order to:

- 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 Company;
- Reiterate that Banca Popolare · Volksbank shall not tolerate illicit conduct of any kind or for any purpose and such conduct (even when apparently to the Company's benefit) is against the ethics and principles of the Company;
- 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 Company and it is considered binding. It ensures that offences predicate to administrative responsibility of entities as identified under prevailing law will be monitored.

For each of the offences resulting in administrative liability, 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 · Volksbank.

The areas/operations open to risk are indicated for each of the offences that are considered high-risk.

All employees (both executives and subordinates) are required to know the organisation model of Banca Popolare · Volksbank and respect the rules that supplement the Company's 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 Board under Italian Legislative Decree 231/01

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

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

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

The Supervisory Board of Banca Popolare · Volksbank 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

Following the provisions issued in 2012, the Organisation Model was revised as follows:

- adoption of Italian Legislative Decree no. 109 of 16 July 2012 entitled "Implementation of directive 2009/52/EC which introduces minimum regulations regarding sanctions and rules with respect to employers who use citizens from third party countries who are in the country illegally" which came into effect on 8 August 2012.
- adoption of Italian Law no. 190 of 6 November 2012 entitled "Provisions for the prevention and suppression of corruption and unlawfulness in the public administration" which came into effect on 28 November 2012. More specifically, the provisions of paragraph 77 of art. 1, which amend articles 25 and 25-ter, first paragraph, letter s-

bis of Italian Legislative Decree 231/2001. We also note that article 1 of the Law also amended the criminal code (see paragraph 75), the criminal procedure code (see paragraphs 78 and 79) and the civil code (see paragraph 76). Two new offences were thereby created:

a) "corruption between private individuals": new art. 2635, paragraph 3 of the Italian Civil Code provides for the imprisonment of between one and three years, unless the facts constitute a more serious crime, to be doubled when it regards companies with listed shares or well known to the public. The persons actively involved are directors, general managers, executives responsible for the preparation of corporate accounting documents, auditors and official receivers. Unlawful conduct entails the commission or omission to act in breach of the obligations inherent in the position of the individual parties or loyalty obligations, to the damage of the company, for example the transfer or promise of money or other benefits to the person's own benefit or to others.
b) "Undue incitement to give or promise benefits": the new art. 319-quater of the Criminal Code sanctions public officials or public service workers who, abusing their position or power, incite someone to unduly give or promise, to that person or a third party, money or other benefits.

- implementation of the so-called "Lanzarote Convention": D.D.L. 1969-D, definitively approved by the Italian Parliament on 19 September 2012, "Ratifies and executes the Convention of the Council of Europe for the protection of minors against exploitation and sexual abuse, made in Lanzarote on 25 October 2007, and adjustment regulations to the internal law" and converted into Italian Law no. 172 on 1.10.2012, published on the Official Gazette no. 235 on 08.10.2012, which came into effect on 23.10.2012, and which makes certain changes to the criminal code with impact on the effects of articles 24-ter and 25-quinquies of Italian Legislative Decree 231/2001.
- Revision (by renaming) the section on corporate governance following the company's new organisation chart.

The new organisation model was approved by the Board of Directors on 25 January 2013.

<u>Other assets</u>

Training was provided on the organisation model and the new regulatory and behavioural provisions in 2012 and in January 2013, including through systematic training to all Company personnel (both executives and subordinates).

The Supervisory Board did not find any breaches of the Organisational Model during the period. 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.

1.4.3. Human Resources

<u>The Workforce</u>

The most important resource held by the Company is its workforce. The workers of Banca Popolare · Volksbank 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 and Code of Ethics of Banca Popolare · Volksbank, 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 2012 there were 1,077 workers, down slightly by 28 workers from 2011 (1,105). Given the reduced working hours of workers with a part-time contract (169 – up since 2011), absences due to maternity leave (21 - year end) and unpaid leave (23 – 31 in 2011), the average number of workers working in 2012 was 977 FTE (full-time equivalent), also down from 2011 (average of 990). The negative employment average of 13 workers (-0.7%) compared to 31/12/2011 is due to the effect of the resizing in the headcount in the sales network and internal services.

68.6% of workers, or 667 FTE) pertained to the network (674 in 2011). The remainder (31.4%), or 306 FTE, pertained to internal services (316 in 2011). Compared to previous years there was a 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 43% in 2012. The average age of workers was 42. The average age of female workers was 39.3.

Banca Popolare · Volksbank is one of the most important employers in the province of Bolzano. A secure, well-paid and high-quality job is provided to 1,077 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	31.12.2012		31.12.2011	
	No. Workers	%	No. Workers	%
Bolzano - internal services and branches	757	70.3%	790	71.49%
Trento	92	8.5%	90	8.14%
Belluno	89	8.3%	87	7.87%
Venice	69	6.4%	71	6.42%
Treviso	59	5.5%	55	4.98%
Pordenone	11	1.0%	12	1.09%

Staff Training and Development

Staff are key to the lasting success of any company and especially in the financial services sector. Specially trained and highly qualified staff are the strategic edge for facing the everyday challenges with professionalism and cordiality.

The banking sector is under rapid development and its complexity and competitiveness have 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.

The Company deals with the increase in such demands by adopting training and professional development measures. In 2012 the Company invested heavily in training involving 99% of staff for a total of over 51,120 hours. There was a slight reduction in the amount of training in general, in order to provide greater selectivity and quality of training.

The training programmes include the following initiatives:

- Internal classroom courses: national and international calibre professionals gave multiple courses and seminars in 2012, which involved the various positions and jobs, and more specifically on the following subject matter:
  - communication and relationships in sales;
  - banking technical content at various levels;
  - personal development;
  - management training and development;
  - updates and changes in procedures and organisation;
  - mandatory training on anti-money laundering rules, MiFID, safety at the workplace (Italian Law 81) and robbery prevention;
  - ISVAP certification (for insurance consultants);
- company courses at national and international institutions: specific and direct training sessions for highly specialised personnel;
- 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;
- e-learning and lync-learning: a new training channel was introduced in 2012 through the “Lync” platform. This new system makes it possible to manage virtual classrooms, provide coaching and arrange distance meetings in

real time, and with a level of sharing and participation that is similar to a traditional classroom. In addition to Lync training, new e-learning modules were introduced, which are increasingly refined from the standpoint of multi-media content (animation, behavioural simulators, films, etc.) which have high teaching potential.

- 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;
- 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 enables a continuing exchange of experiences, and it is 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 the company development service;
- Case study analysis: 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;
- Branch-based training: branches close in the afternoon on a monthly basis. Training sessions are held and circulars are studied and discussed during this afternoon;

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.

<u>Training Management</u>

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.

<u>Yearly Worker Interview</u>

At Banca Popolare · Volksbank 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.

1.4.4. Internal Audit

Internal audits are performed by the 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 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 Company is a member. IIA issued professional standards for Internal Audit (International Professional Practices Framework - IPPF). Three binding elements are defining internal audits, a code of conduct, and international standards for professionals performing internal audits. IPPF disseminates best practices for internal audits. Compliance with these standards and guidelines is not mandatory, however, it is highly recommended in order to ensure high-quality internal audits.

In light of these 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), the Internal Audit Department uses an "Internal Audit Charter", approved by the Board of Directors.

The "Internal Audit Charter" includes the main points of professional standards and governs the following internal audit areas: 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 establishes 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 an "Internal Audit Manual", which describes the main methods used for internal audits, such as the methodological approach for carrying out an audit, standard work schemes with check points to inspect the retail network (periodically revised), standard work schemes for the process audit. The manual reflects the direction of internal audits towards risk and control assessment by the Company. 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 management.

1.4.5. Compliance

Compliance

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 Company and the quality services provided to customers.

The Compliance Office operates independently within the structure 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 Italian Legislative Decree 231/01;
- Complaint management;
- Amendments to code of conduct and Code of Ethics.

In accordance with the details set out in the 2012 Work Schedule, the Compliance office mainly focused on the following in 2012 in accordance with its mandate:

- Audit report;
- Consultancy report;
- Training report;
- Periodic reports to the Board of Directors;
- 2012 operations report approved by the Board of Directors on 8 February 2013 regarding the entire year 2012.

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

Code of ethics

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 Company'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 Company with more trust, confidence and better cooperation.

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 Company's stakeholders.

The Company's Compliance office is a great asset for both consumers, whose rights and complaints are followed by the Company, and for the Company 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.

This includes a project started in 2012 and being developed in 2013 aimed at greater harmonisation between the various second level (Compliance, Risk Management and Manager Responsible) and third level (Internal Audit) audit offices. The first phase ended with establishment of the Internal Audit Commission; the second phase is under way and aims at the creation of a standard work method for all audit offices; there will also be a third and final phase to establish a standard reporting process for the company bodies.

Complaints

Banca Popolare · Volksbank 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 Company'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 Company 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 Company to identify and remove the cause of any poor service and also to improve procedures.

The Company 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 Company’s website.

In this regard, the information kit offered by the Company through its retail network and website contains extensive information including the rules on how complaints are handled and the Company’s system for settling disputes.

Moreover, statistics on complaints received by 31 December 2012 are also published. During the financial year 194 written complaints were received and processed, including 163 regarding bank services and 31 regarding investment services. Out of 194 complaints, 182 were taken care of by 31 December 2012, while 12 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 Company, and it sets out the disclosure requirements held by the party in charge of handling such information.

While improving the previous version as regards its subjective scope, the version of the code adopted on 26 October 2012 confirms the innovations already 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 Company collaborators with full access to information and data as they are involved in overseeing, managing and monitoring the financial instruments issued by the Company.
- More detail on the definition of parties “associated" to significant parties under the code.

The Compliance area confirmed compliance with the Code of Ethics by the parties through the monitoring carried out in 2012.

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 Ministry of the Economy and Finance (MEF) of 18 August 2008, Italy published a list (“White List”) of non-EU countries that adopted the similar obligations to those provided under Directive 2005/60. 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. The FATF defined the world standards for the prevention of money laundering and funding of terrorism on 16 February 2012: thanks to the revised information contained in the new recommendations, the national authorities will be able to take more effective actions at all levels in order to prevent money laundering and funding of terrorism, from identification of customers opening bank accounts to investigation, prosecution and confiscation of property. The amendments introduced intensify the obligations required in high-risk situations and allow countries to enhance the risk analysis and implement the so-called risk-based approach in a more accurate manner.

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 FATF Recommendations of 2003. The Directive was transposed into Italian law with Italian Legislative Decree no. 109 of 22 June 2007 (“anti-terrorism”), and no. 31 of 21 November 2007 (“anti-money laundering”).

Italian 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.

Italian 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 UIF circulars of 27 February 2012, 16 March 2012 and 23 April 2012 updated the anomaly schedules for operations related to the unlawful use of debit cards for withdrawing cash, the risk of fraud in factoring, and international tax fraud and fraudulent invoicing respectively.

Italian Legislative Decree 169/2012 consolidated the previous provisions, and more especially by requesting banks to terminate continuing business relationships where adequate customer monitoring obligations cannot be complied with.

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

2012 was mainly dedicated to major changes in the entire anti-money laundering system under “Action plan 2012”. 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 2012 the following actions were undertaken:

a) update of the adequate verification process and alignment with the terms of Italian Legislative Decree no. 169 of 19.09.2012;
b) constant update of the internal manuals on anti-money laundering (Doku system, guidelines and internal procedures), especially with regards to the UIF circulars issued in 2012;
c) implementation of additional management controls related to the circulation of cash and bearer securities (savings accounts), for which an IT tool was introduced to make a statistical analysis of any significant changes in the commercial network;
d) total compliance with balance limits (Euro 1,000) provided by Italian Legislative Decree no. 201 of 6 December 2011 for the bearer savings accounts by the deadline of 31 March 2012;

e) inclusion of a specific item for stating the source/destination of money in the forms for cash withdrawals/lodgings of Euro 5,000 and above;

f) electronic forwarding of Aggregate Anti-Money Laundering Reports (SARA) to U.I.F. as of May 2012, following completion of a diagnostic process to correct any errors;

g) quarterly information report to the Board of Directors on the organisational structure of the anti-money laundering system and how up-to-date the policies are;

h) increase in quality and quantity of 2nd level inspections respect to recording movements in the consolidated electronic registry (“AUI”);

i) involvement in the consortium activities to formulate the appropriate IT, procedural and organisational systems, in accordance with the consultation document published by the Bank of Italy called “Provisions concerning implementation rules regarding adequate checks on customers” dated 2 February 2012, concluding the series of regulatory measures deriving from the third EU anti-laundering directive.

j) major improvement in quantity and quality of training, both internal and external, both onsite and by e-learning, which involved the participation of 757 operators of the commercial network and the internal service managers, with an extremely practical approach in order to increase individual skills with regards to anti-laundering; the training was extended also to customers through the publishing of new features on the company's website and in the information sheet given to customers when certain transactions were being carried out at the branch.

1.4.6. Risk Management

On 20 December 2012, the Board of Directors approved the charter of the risk management office, which had already been established by Banca Popolare · Volksbank in 2003, and which adopted the latest national and international regulations concerning the role and obligations of the audit office, to which the risk management section belongs, and which sets out:

- the independence requirements for all the company audit offices;
- adequate professional requirements for the office managers and staff, excluding any role or direct involvement in any operational areas subject to auditing on their part;
- specific planning and reporting of the audit activity to submit annually to the company bodies.

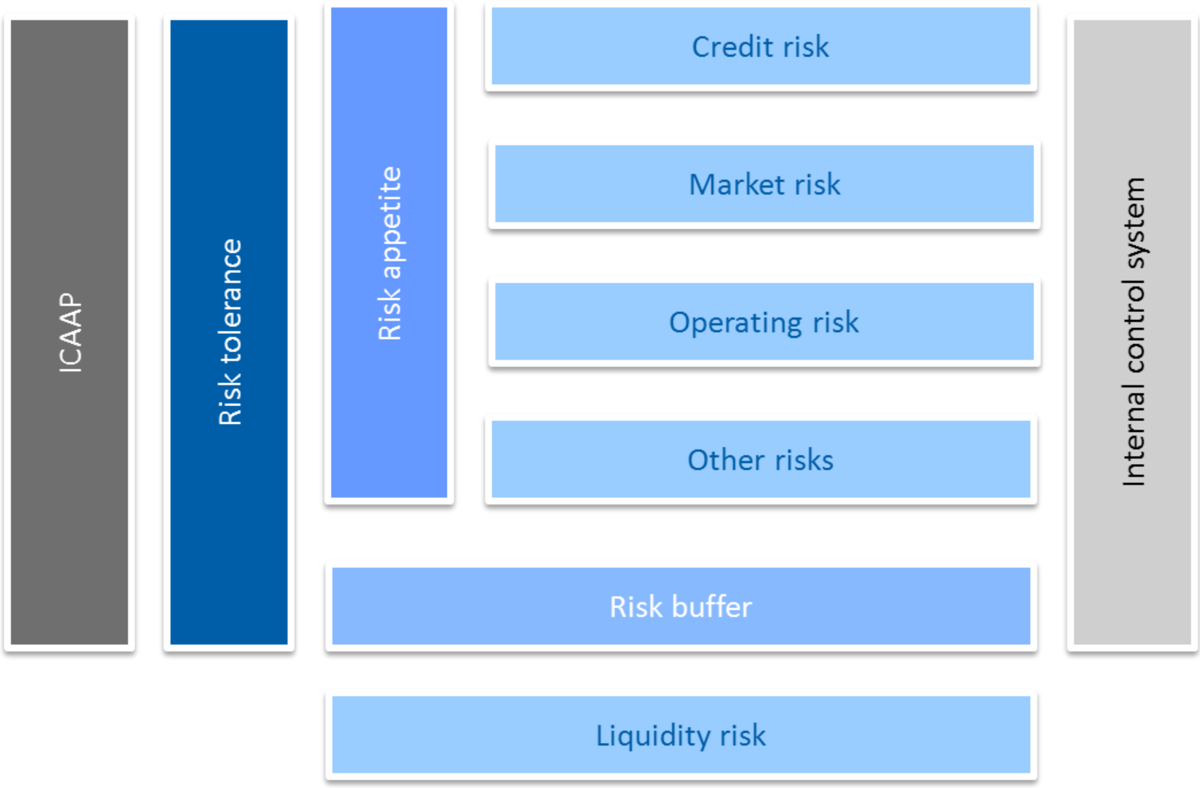
The charter therefore establishes that the risk management function reports hierarchically to the Corporate Affairs Unit and functionally to the Board of Directors, subject to the right of the head of the service to report directly also to the other company bodies. The Corporate Affairs Unit manager defines the work of the office from an organisational point of view, for the sole purpose of ensuring its organisational adequacy and correct operation, but without examining its independent judgments on the merits of any matters. The head of the Risk Management service communicates and answers directly to the Board of Directors regarding the work carried out and performs the duties conferred on an independent basis.

Concerning risk measurement and management, 2012 was characterised by yet another increase of efforts aimed at a more effective dissemination and instilment at all levels of management, of the Risk Management Policy of Banca Popolare · Volksbank, whose yearly revision was passed by the Board of Directors on the 9 November 2012. 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.

One of the most significant innovations introduced by the revision is the definition of the so-called risk attitude, as indicated by the provisions of the national and international authorities, i.e. the ability of the Company to assess and if necessary pursue, maintain, assume or remove the risk. The goal was to define risks in individual activities and describe the ongoing changes in the risk structure, so that accurate and fast risk control and management could be ensured. Any adverse changes could therefore be detected in time thanks to systematic monitoring, allowing for corrective actions to be taken for the risk structure. The framework adopted includes four levels of assumption of risks depending on the ability or intention of the Company to assume risk and also depending on the extent of Company capital available to cover risks, its income capacity and the risk the Company is willing to assume in order to attain its own economic and strategic goals:

- risk covering potential, representing the absolute risk limit that the Company is able to sustain, even if it compromises its ability to continue as a going concern, but protecting savings and maintaining the stability and efficiency of the financial system, therefore preventing any domino effect on the system. This reflects the ability to tackle adverse situations of critical emergency or crisis;
- risk capacity, representing the maximum amount of risk that the Company is able to sustain without compromising its ability to continue as a going concern. This reflects the ability to tackle and endure adverse situations of critical emergency or stress;
- risk tolerance, representing the absolute risk level that the Company is willing to assume beforehand. This is the standard risk limit which is accepted in the normal running of a business;
- risk appetite, representing the actual risk limit that the Company establishes within the maximum level defined by risk tolerance. It reflects the risk propensity within the scope of the normal running of the business.

The diagram below shows the relations between risk attitude with capital structure (ICAAP process) and individual macro types of risk.



The risk classification was extended in the new version of the document, especially with respect to:

- exposure concentration risk that has been broken down into concentration risk for individual borrowers (risk incurred in the event of exposure - investments or granting credit - to one subject or a group of interconnected subjects) and geo-sector concentration risk (risk deriving from exposures to parties operating in the same business sector or geographical area);
- liquidity concentration risk, which has also been broken down into concentration risk on flows (concentration risk on expected cash inflows and outflows – and resulting imbalances or excesses – over predefined time bands) and concentration risk on funding (risk of depending on one market and an excessively limited number of markets/counterparties or focusing on specific technical forms).

The annual risk assessment made to identify the level of each risk within the business activities and the operating characteristics led to the identification of insolvency risk (a case of credit risk) and rollover risk (a case of liquidity risk) as the two types of high-level risk for which the entire operating and control strategy organisation must monitor as carefully as possible.

The internal audit system was revised both on an operational level through the introduction of the new internal audit commission and on a formal level by redefining the roles of the audit offices (Internal Audit, Risk management, Compliance) and the manager heading it, emphasising the business functions as they are the first line of defence against the risks and play an active role in the internal audit system (first-level audits). The goal of promoting the ‘awareness of risk’ as much as possible both upwards (top management) and downwards (retail network, internal offices) will be an essential guideline in future strategies.

In direct relation to the main document, in 2012 a series of policies and internal rules were consistently 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”, 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.

As in the past, also in 2012 the Company calculated “First Pillar” capital requirements to deal with credit and market risks using the standard approach. During the year-end reports, the Board decided to apply this method to operating risks too, subject to thoroughly ensuring compliance with all regulatory prerequisites. The capital requirement calculation equals the average of the last 3 annual observations of the banking margin (item 120 in the income statement), separated by regulatory lines of business, each one weighted according to predefined regulatory ratios (risk factors). The adoption of this more sophisticated method was estimated to lead to a decrease of asset requirements of approximately Euro 3-4 million.

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 new features recently introduced in the ICAAP process include the formalisation and organisation of all phases of the process, fully complying with the regulatory provisions and the internal organisational structure. Two checks of capital adequacy are planned per year:

- the “official” check based upon the information in the financial statements and year-end reports leading to the yearly report to be sent to the Supervisory Body;
- the internal six-monthly check on the half-yearly data at the end of June.

The yearly statement of the ICAAP process 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.

During the process, after considering the strategic planning, ongoing implementation of the Basel 3 framework, the uncertainty on the development of the current economic and financial situation based on which the stress scenarios envisaged seem more likely, and the wish to continuously maintain a more than adequate level of capitalisation, the authority responsible for strategic supervision appointed the General Management to undertake the necessary actions in order to carry out a share capital increase by the end of 2012 and to thoroughly analyse the capital management (balance sheet assets) in order to identify any possibilities of strengthening/optimisation the regulatory capital by means of internal measures. Both actions were successfully implemented by the end of the year.

Based upon the six-month report data, the infra-annual ICAAP process significantly confirmed the solidity and quality of the Bank's equity structure, as well as its ability to continue as a going concern.

Again in 2012 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 main impacts of the new rules were evaluated which were to come into effect gradually starting from 2013, and work began on bringing activities into compliance 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.

1.4.7. Manager responsible for the preparation of corporate accounting documents

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

The rules give specific responsibilities to the Manager responsible for the preparation of corporate accounting documents in order to ensure a true and correct view of the issuer’s equity, economic and financial condition.

For that purpose the Manager responsible for the preparation of corporate accounting documents 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 Manager responsible for the preparation of corporate accounting documents 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 · Volksbank 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.

1.4.8. Legal

The Service for Bad Debts uses internal legal advisors and administrative management staff. Debt collection activity is proactive and aims to optimise legal proceedings and maximise the financial result. In particular, with regard to assessment of the initiatives to be taken, in-house legal advisors thoroughly assessed out-of-court actions which have a positive impact on collection times and the level of costs sustained (external legal advisors, taxes, judicial proceeding costs). Where this solution cannot be considered, 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, as well as often a tool to resolve litigation. This is why the Company signed an agreement with leading offices for most ordinary debt collection. 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 with regard to cost-benefit terms. For financial statements purposes, 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 calculated on the basis of debtor solvency, the type and value of the guarantee and the current status of proceedings taken. The provisions are constantly being estimated in accordance with prudential criteria and the accounting standards, also applying time-discounting principles.

The Legal Consultation Office provides legal support to internal structures and the retail network. It also manages legal proceedings (except for those concerning labour laws and taxes) related to normal company activities, using leading law offices at agreed rates. If it is possible to make a reliable assessment of any losses and such loss is considered probable, it allocates funds in the balance sheet in the amount deemed adequate according to the circumstances and risk in question. It also manages seizures from third parties and relations with Legal Authorities and Law Enforcement.

1.4.9. Technological and Administrative Services

Information and Communications Technology

The Company collaborates with the IT outsourcer SEC from Padua for the management, development and innovation of the entire IT system supporting all bank processes, both internal and at branch level.

The introduction of new technologies and the modernisation of existing IT applications, especially at branch level, continued in 2012.

Therefore, the modernisation of credit applications used both in branches and centrally was completed: total roll out of the new web platform for managing and approving credit line applications (new “PEF”), functional finalisation of management and monitoring for non-performing and problem loans (“GDC”), enhanced management of real-estate estimates and appraisals accompanying mortgage-secured credit line applications. The functions for ordinary and advanced financial consulting were defined (finance consulting) for the web platform.

By now Banca Popolare · Volksbank leads the market in innovation for online products and services, and there were a number of important innovations made in 2012: customers using the Internet banking service of this bank, the first one in this region and among the first ones in Italy and Europe, can conveniently purchase both prepaid debit cards and ATM cards online as of 2012 by signing all agreements directly online using their digital signature and without any need for printed documents. The customers will be sent the products purchased online directly to their home addresses. More products are being added to these two to extend the existing range.

In 2012, the bank was also the first in the region to offer a new version of the Internet banking service in mobile mode: *App* for iPads or PC tablets. Moreover, further data and order transactions were added to the entire Internet banking service: customers can now receive notices on transparency (summary document) for most products only online, they can send money orders for house renovations and use other functions online through cob@web for businesses.

The modernisation of IT systems and organisational improvements also included various new regulations, especially as regards anti-money laundering laws. For this purpose, automatic mechanisms for requesting more detailed information at the counter were introduced for customer cash transactions starting from Euro 5,000. The Company may manage this threshold with greater flexibility for lower amounts in future, complying with ever-changing regulatory requirements that are making banks increasingly responsible for investigation duties. More automatic mechanisms were also introduced for the identification and detection of customers with outstanding issues for which the regulations require targeted and effective measures. Counter employees are therefore provided with information on the customers from whom additional information is required (e.g., expired identity card) or who have not filled out all the necessary forms (e.g., adequate verification) as required by law, and if the customers don’t comply, run the risk of having their bank relationship suspended or blocked. Such notices can also be sent directly to customers using the automatic channels, typically ATM withdrawals.

However, the intense and on-going revision and monitoring of the latest government and EU provisions continues. Special attention is paid especially to anti-money laundering rules which is an indirect government goal to reduce tax evasion and criminal activities with the help of the banks.

The customers were made aware of the introduction in 2012 of ATM machines for withdrawing and lodging banknotes and for depositing cheques (so-called "Next Generation ATMs"). Thanks to this innovation, a significant number of counter transactions can be automated, and at the same time customers can lodge cash even outside normal opening hours and on weekends. Cash lodged at the ATM is credited immediately in terms of both value date and liquidity, making it immediately available to the customer for any transaction, e.g. money orders at the kiosk or via iPad or via Internet banking. Moreover, the lodgement of cash adds a sense of security that the current ATM deposits were not able to guarantee: there can be no more differences between the Company's count and the customers' count that used to lead to disputes and complaints. The new service is greatly appreciated and used by customers, such as traders, small businesses and self-employed professionals. "Next Generation ATMs" are currently installed at 7 branches in Bolzano, Merano, Bressanone and Vipiteno and in the new branch of Renon. They replace the ATM deposit machines previously installed. The series of new installations of "Next Generation ATMs" will also continue in 2013, with obvious priority for the branches dealing with most cash transactions and the newly opened branches.

Also, at branch level, two infrastructure innovations were completed in 2012:

- the possibility of sending text messages to customers via PC, or directly from the banking systems; by viewing the customers' details in the banking systems, the employee can send them text messages by simply clicking their phone numbers; this service is highly appreciated by consultants;
- 5 branches were equipped with wireless Internet access (WI-FI), freely accessible in these branches to anyone having a Smartphone, tablet or laptop computer; customers in these branches have not shown much interest in the use of WI-FI so far.

Finally, also as regards infrastructures, a leading company (IBM) conducted a test on the security level of systems, networks and anti-intrusion, anti-spam and anti-virus protection programs in 2012. IBM issued a certificate acknowledging the highest technical levels of protection and anti-intrusion control currently available on the market. This result forms part of the policy to use innovative and cutting-edge technology in the Internet banking services which must offer the highest levels of protection. The Company is constantly looking for the latest updates and the highest standards of data security.

Finally, the satisfactory collaboration with our IT outsourcer SEC allows for high levels of service by the IT system and continuous development and innovation sponsored and promoted primarily by the Company.

Organisation of the Operational Processes

All operational processes of the Company have been documented in graphic form for many years, taking three key principles into account: customer focus, efficiency and the minimisation of risk. Based on analyses carried out, processes can be continuously optimised according to three criteria and following the appropriate strategic indications.

Given the predominance of human resources at branch level, the analyses and process improvements have focused mainly on the commercial network. The most significant example in 2012 was the complete removal of lengthy bureaucratic formalities for customers and employees when signing banking agreements: previously, customers were required to manually and personally write the date and place on each agreement, as well as indicate their place and date of birth. By optimising the signature process, the customers do not have to manually indicate the place and date of birth any more thanks to the automatic insertion of the customers' tax code in the agreement. In addition, from now on the place and date of the agreement will be printed automatically by the system. Customers can simply sign.

Considering the high number of signatures required by law and the regulations for every single agreement, this process optimisation eliminated many delays, waiting time and annoying further requests from customers who forgot to indicate their date and place of birth. In addition to the benefit to customers, any potential sources of error were removed.

This is why all agreements were modified in 2012, except those related to credit. This will be amended in 2013.

The 2012 process analysis focused on optimising branch operations and completing the documentation of internal processes. Overall, the optimisation concerned a little more than 100 processes.

The integration of the "Branch organisation" office into the "Processes" team, effective as of 1 January 2012, made it possible to create internal synergies in the analysis and optimisation of processes at branch level. This gave rise to the project for using digital signatures on tablets for accounting operations at the counter. The project was conceived, developed, tested and implemented in two branches with the help of SEC. Since the end of 2012 almost all (95%) of counter transactions can be signed directly using a tablet, thus avoiding the use of paper. The signed accounting statements are sent to the customer's e-mail address and stored in the customer's Internet banking system immediately after signing. This project is part of a major reorganisation of branch operations, with a view to automating transactions, progressively streamlining and reducing the time required for routine tasks at the counter (mainly, "cash" transactions), encouraging multi-channels for customers and staff, and finally focusing on high added-value activities, such as customer relations, consulting, attention to the personal relationship with customers and partners.

Thanks to the simple transition of the signature of accounting statements from paper to tablets, there will be a saving of tens of millions of paper printouts which private customers very often threw away after leaving the branch; this will also reduce the time spent by customers carrying out routine tasks. Thus, the Company will help to safeguard the environment while also making cost savings.

Despite successfully completing the project for the signature of accounting statements via tablet, with two branches already fully operational on these systems, a decision was made to wait for further implementation and functions before introducing this new system to all branches, in order to minimise the burden of notification and training. The introduction of tablets in all branches is therefore due to be carried out in the first half of 2013.

1.4.10. Projects

Product Management Office

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 Management Office developed a new concept of integrated multi-channelling in 2012. The radical changes taking place in the Company, rowing awareness, the ever increasing needs of customers and the current technological challenges required a thorough analysis of marketing strategies and the current commercial structures of Banca Popolare · Volksbank. The task was to compare customer behaviour as an element of the company (demand) with the Company behaviour (offer) in order to measure the meeting point due to the many ways possible for the two parties to interact. The work concluded by drafting a staff development plan that will aim towards an increasingly perfect convergence between the Company’s strategy, aimed at innovation and multi-channelling, and customer development. This will ensure a more adequate response to the needs of customers on the one hand, and will seize all opportunities offered by technological development on the other hand so that the Company will be able to guide its customers in the digital age.

Legal Aspects

The Product Management Office must always ensure compliance with the laws on transparency in transactions and bank services and with the regulations against usury laid down in the Consolidated Act, the regulatory provisions issued by the Bank of Italy and other legal rules and provisions, ensuring compliance with contract laws and product conditions.

Particular attention is paid to the monitoring of several legal rules on products and services offered, in order to ensure timely compliance with the changing regulatory environment.

2012 was mainly characterised by the compliance efforts following the Italian Legislative Decree known as "Salva Italia" issued by the Monti administration already at the end of December 2011. Among the changes introduced by the decree, it is worth noting the tax provisions relating to stamp duty on financial products, bank statements and savings accounts, the introduction of the free bank account ("Conto Base") and the integration of regulations on the remuneration of credit lines in current accounts and on exceeding of limits.

In order to improve the awareness of products and tailor their contents to regulatory changes, practical guides on current account agreements and mortgage loans to consumers were also revised with a special provision of the Bank of Italy.

These new versions were made available to our customers both in Italian and in German by the end of September 2012.

1.4.11. Privacy Protection

In order to protect privacy Banca Popolare · Volksbank uses an IT system developed (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 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 Sales Department (customer data manager);
- Head of Human Resources department (employee data manager);
- Head of Legal Department (data manager under art. 13 of Italian Legislative Decree no. 196/2003 – Personal Data Protection Code);
- Head of Organisation Office (manager of electronic data security).

1.5. Results of Operations

1.5.1. Profit/loss

Presentation of economic results

Below is an outline of the reclassified income statement for a better understanding of the economic results. The data as of 31 December 2011 were also restated to reflect the retroactive application of IAS 19, employee benefits, concerning 2011, as required by the revised IAS 19. For more details about the changes and the effects on the economic results and financial position as at 31 December 2011 and 31 December 2012, please refer the Supplementary notes, Part A - Accounting Policies - Section 4 - Other aspects.

As required by Consob communication no. DEM/6064293 of 28 July 2006, following is a description of the restatements and aggregations carried out:

- the item “Dividends and profit (loss) on equity investments measured at shareholders’ equity” includes the income statement item “Dividends and similar income” and the item “Profit (Loss) on equity investments”;
- the item “Net financial result” includes “Net income from trading activities”, “Profit (Loss) from the sale or repurchase of available-for-sale financial assets”, “Profit (Loss) from the sale or repurchase of available-for-sale financial liabilities”, and “Net profit (loss) from financial assets and liabilities carried at fair value”;
- the item “Value adjustments on tangible and intangible assets” includes the income statement items “Net adjustments/write-backs on tangible assets” and “Net adjustments/write-backs on intangible assets”;
- the item “Net adjustments on receivables and other transactions liabilities” includes the item “Profit (Loss) from sale or repurchase of receivables”, the item “Net value adjustments/write-backs for loan impairment” and the item “Net value adjustments/write-backs for impairment of other financial transactions”;
- the item “Profit (loss) from disposal of equity investments and investments” includes the items “Profit (loss) from the sale or repurchase of financial assets held to maturity”, “Net adjustments/write-backs for impairment of financial assets held to maturity breakdown”, and the item “Profit (Loss) from disposal of investments”.

Overall development of the economic result

The results of operations in the 2012 financial year confirm the well-balanced position of aggregate balance sheet items, the solid financial condition and adequate liquidity.

Earnings were positive in the finance segment, which benefited from the market recovery after the particularly poor performance of 2011. Considering the deeply rooted crisis and the lack of economic growth that has continued for a long time, normal operation remained essentially unchanged, notwithstanding a particularly significant increase in value adjustments of the main assets, indicating the deep attachment of the Company to its territory.

Retail banking performance - which is the core business of the Company - is in line with the performance of 2011. Interest margins essentially remained at the same levels as the previous year, while net commissions fell, partly due to costs related to liabilities issued by the Company and used for the Long Term Refinancing Operations promoted by the European Central Bank.

Loan write-downs increased significantly, due to the particular focus on risk oversight during the year. Loan risks reflect the significant relation with the economic outlook and the strong ties with the local territory.

Reclassified income statement	**31.12.2012**	**(*) 31.12.2011**	**Absolute**	
(thousands of Euro)			**change**	**%**
Net interest	118,145	116,855	1,290	1.1%
Dividends and profit (loss) on equity investments measured at shareholders' equity	(6)	653	(659)	-101.0%
Financial margin	**118,139**	**117,507**	**631**	**0.5%**
Net commissions	65,246	68,308	(3,062)	-4.5%
Net financial result	8,407	(5,176)	13,583	-262.4%
Other operating costs/income	12,602	10,737	1,865	17.4%
Other operating income	**86,254**	**73,869**	**12,385**	**16.8%**
Net operating income	**204,393**	**191,376**	**13,017**	**6.8%**
Personnel costs	(73,740)	(75,114)	1,374	-1.8%
Administrative expenses	(51,015)	(53,084)	2,069	-3.9%
Value adjustments on tangible and intangible assets	(14,803)	(9,771)	(5,032)	51.5%
Operating charges	**(139,558)**	**(137,969)**	**(1,588)**	**1.2%**
Operating profit (loss)	**64,835**	**53,407**	**11,428**	**21.4%**
Net value adjustments on receivables, guarantees and commitments	(26,359)	(19,448)	(6,911)	35.5%
Net value adjustments on other assets	(1,839)	-	-	-
Net allocations to provisions for risks and charges	(1,096)	(892)	(204)	22.9%
Profit (loss) from disposal of equity investments and investments	(5)	59	(65)	-108.8%
Profit (loss) for current operations	**35,536**	**33,126**	**2,410**	**7.3%**
Year-end income taxes for current operations	(13,954)	(14,830)	876	-5.9%
Profit (loss) for the year	**21,583**	**18,296**	**3,286**	**18.0%**

(*) Amount restated following the retrospective application of the new version of the standard "IAS 19 - Employee benefits".

Net interest grew by 1.1% to Euro 118.1 million (116.9 million in 2011), up by 1.3 million over the previous year. 2012 was characterised by a historically low level of interest rates, recorded also in 2011 and, unlike 2011, by an increase in the volume of loans despite the need to ensure proper controls on the assumption of risk. The result is mainly due to the volume effect of both loans and financial assets, as well as to the evolution of rates on deposits and loans, due to the rising cost of deposits following tensions in the sovereign debt market.

The item Dividends and profit (loss) on equity investments measured at shareholders' equity includes the value adjustment to the investment Voba Invest S.r.l. in liquidation, as well as the dividends approved in the year, whose carrying amount of 348,000 in 2011, was written off in 2012 as a result of losses incurred in the year.

Net commissions amounting to Euro 65.2 million in the year were down (-4.5%), partly due to costs related to the guarantee of Ministry of the Economy and Finance on bonds used as collateral for refinancing transactions at the ECB.

The net financial result showed a significant improvement, standing at +8.4 million, compared to a negative result of -5.2 million in the previous year.

In particular, the net result from trading activities amounting to Euro 3.3 million, compared to the negative result of 2011 (-6.6 million) in a particularly complex and highly volatile market and the result from instruments classified as AFS, Euro +2.1 million, up from 206,000 in 2011, were both positive.

More specifically, profit from the sale or repurchase of available-for-sale assets amounted to Euro 2.8 million (0.2 million in 2011) and referred to profits deriving from the sale of AFS securities, especially towards the end of the year, in order to benefit from the particularly positive market situation. As is known, the change in value of AFS securities is recognised under shareholders' equity, the positive or negative reserves are only written off in the event of sale, redemption or impairment, and the resulting profit or loss is recognised in the income statement.

The profit from the sale or repurchase of financial liabilities increased by 52.5% to 1.2 million (0.8 million in 2011) and was related to the profit from the repurchase of bank bonds at a lower price than the issue price.

The net result from financial assets and liabilities carried at fair value amounted to 1.1 million (0.4 million in 2011) and was related to the net result from the trading and measurement of the financial instruments (derivatives and emissions with natural hedging) for which the Company adopted the fair value option, involving the measurement of these liabilities and related hedging derivatives at fair value instead of the alternative possibility of using hedge accounting. The measurement amount of 600,000 was due to the specific natural hedging of these transactions.

The item other operating costs/income amounting to 12.6 million (10.7 million in 2011) increased by 17.4%, partly due to the recognition of expenses for the rapid preliminary process in this item, as per instructions by the Supervisory Body, and the non-recurring components related to other extraordinary losses down by 1.5 million.

Overall, other operating income stood at 86.2 million, up by 16.8% compared to 73.9 million in 2011.

Operating charges amounted to 139.6 million, up by 1.2% compared to 138.0 million of the previous year. This increase can be attributed to non-recurring components related to the 6.8 million write-down of owned properties. Without this effect, operating charges would amount to 132.8 million, down by 6.2 million and 3.7% compared to 2011. More specifically:

- personnel costs amount to Euro 73.7 million (-1.8%). As already mentioned above, and as detailed in the financial statements, actuarial losses (profits), amounting to -2.8 million and recognised in the income statement under “personnel costs” until 2011, are to be recognised under a specific reserve in shareholders' equity starting from 2012, according to the latest version of IAS 19, applicable as of the current year;
- administrative expenses amounted to Euro 51.0 million (-3.9%) also going to confirm the Bank's commitment to cost curbing policies;
- net adjustments/write-backs on tangible and intangible assets were up by 51.5% amounting to 14.8 million. As already mentioned, the non-recurring change was related to write-downs of real-estate property (recorded under “tangible assets”) for Euro 6.8 million. Without this non-recurring component, the write-downs of tangible and intangible assets would have amounted to Euro 8.1 million, down by 17.6% compared to the previous year.

Net value adjustments for loan impairment or other financial transactions stood at 26.4 million, up by 35.5% compared to 19.4 million in the previous year. The significant increase recorded in the year was due to both the weakness of the economic context in which the Company operates, which continues to support local businesses and households, and the necessary caution in evaluating the current economic situation as expressly required by the Supervisory Body.

Loan adjustments stood at 26.6 million, up by 35.4% compared to 2011 (19.6 million). The amount increased significantly due to both implementation of the instructions received from the Supervisory Body during the inspection, and the special attention paid to monitoring credit risk that was necessary to adopt when drafting the 2012 financial statements, also in relation to the increasing weakness of the local economic situation and due to the prospects for short-term growth recovery and therefore the overall credit quality.

The strengthening of safeguards against credit risk, already started in 2011, resulted in a significant increase in adjustment provisions, amounting to a total of 2.98% of gross loans (2.60% in 2011). The hedging of non-performing loans and problem loans is 44.75% (40.72% in 2011) and 9.71% (10.77% in 2011) respectively; the percentage of write-down for performing loans stood at 0.46% (0.45% in 2011). The overall cost of credit was 53 bps in 2012, up over 41 bps on the previous year.

Other minor components of the item were as follows:

- profits from sale or repurchase of receivables for 0.1 million, in limited amounts, mainly related to the sale of bank securities classified as loan portfolio (L&R - Loans & Receivables);
- net value adjustments/write-backs for impairment of other financial transactions.

Net value adjustments on other assets, related to adjustments for impairment of shareholdings classified as AFS instruments, amounted to 1.8 million.

Net allocations to provisions for risks and charges amount to 1.1 million (0.9 million in 2011). The allocations hedge expected losses in petitions and lawsuits, as well as the allocation against negative shareholders' equity of the subsidiary VOBA Invest S.r.l. in liquidation.

Profit (loss) from disposal of equity investments and investments related to partial reimbursement of a securitised loan in the HTM portfolio. As is known, the sale of HTM portfolio securities is prohibited, except in restricted cases, and profits or losses arise only in the case of reimbursement by the issuer.

Gross profit for the year rose by 7.3% amounting to 35.5 million (33.1 million in 2011).

Income taxes amounted to Euro 14.0 million (14.8 million in 2011). The tax rate stood at 39.3% (44.8% in 2011), down mainly due to the application for a refund submitted pursuant to the "Decree on tax simplification" of March 2012 which requires deductibility for IRES and IRAP on the expenditure for employees and assimilated staff, recognised as of 2012, and for payments made in the five previous tax periods.

Net profit for the year amounted to Euro 21.6 million, up by 18.0% compared to 18.3 million in 2011.

1.5.2. Financial position

Presentation of the financial position

A reclassified balance sheet was also prepared in order to facilitate the reading of the balance sheet. The reclassification exclusively involved combining balance sheet items. More specifically, we note the following:

- the item “Financial assets and investments” includes the balance sheet assets “Financial assets held for trading”, “Financial assets available for sale”, “Financial assets held to maturity” and “Investments”;
- the item “Tangible and intangible assets” includes the corresponding balance sheet assets;
- the item “Other assets” includes the assets “Tax assets” and “Other assets”;
- the reclassified liabilities and net shareholders' equity items “Amounts due to customers, outstanding securities and liabilities carried at fair value” include the balance sheet liabilities “Due to customers”, “Outstanding securities” and “Financial liabilities carried at fair value”, and they essentially represent direct deposits;
- the item “Other liabilities” includes the balance sheet liabilities “Tax liabilities”, “Other liabilities”, “Staff severance indemnities” and “Provision for risks and charges”;
- finally, the shareholders' equity “Capital and reserves” includes the shareholders' equity items recorded under the liabilities “Valuation reserves”, “Reserves”, “Share premiums” and “Share capital”.

Reclassified assets *(thousands of Euro)*	**31.12.2012**	**31.12.2011**	**Absolute change**	**%**
Cash and cash equivalents	49,607	35,768	13,839	38.7%
Financial assets and investments	479,475	376,488	102,987	27.4%
Due from banks	156,512	172,171	(15,659)	-9.1%
Loans to customers	5,016,488	4,797,638	218,850	4.6%
Tangible assets	103,090	112,498	(9,408)	-8.4%
Intangible assets	43,658	44,473	(816)	-1.8%
Other assets	98,587	81,121	17,466	21.5%
Total assets	**5,947,416**	**5,620,158**	**327,258**	**5.8%**

Reclassified liabilities	31.12.2012	31.12.2011	Absolute	
(thousands of Euro)			change	%
Due to banks	771,855	670,107	101,748	15.2%
Amounts due to customers, outstanding securities and liabilities carried at fair value	4,354,637	4,263,005	91,633	2.1%
Financial liabilities held for trading	12,476	15,439	(2,964)	-19.2%
Other liabilities	189,385	129,713	59,673	46.0%
Shareholders' Equity:				
- Capital and reserves	597,480	(*) 523,598	73,882	14.1%
- Profit (loss) for the year	21,583	(*) 18,296	3,286	18.0%
Total liabilities and shareholders' equity	**5,947,416**	**5,620,158**	**327,258**	**5.8%**

(*) Amount restated following the retrospective application of the new version of the standard "IAS 19 - Employee benefits".

Bank Payables and Receivables

Interbank Relations	31.12.2012	31.12.2011	Absolute	
(thousands of Euro)			change	%
Due from banks	156,512	172,171	(15,659)	-9.1%
Due to banks	771,855	670,107	101,748	15.2%
Net banking position	**(615,343)**	**(497,936)**	**-117,407**	**23.6%**

The interbank market provided the Company with enough liquidity in the period to sustain its short-term and immediate needs. As regards treasury activity, the net liquidity position on the interbank market at the end of the year showed a negative balance of 615.3 million, further rising compared to 497.9 million in 2011.

Loans to Customers

Customer lending amounted to 5,016.5 million, up by 4.56% compared to 31 December 2011, when the item stood at 4,797.6 million (+218.9 million).

Technical form of loans	31.12.2012	31.12.2011	Absolute	
(thousands of Euro)			change	%
Current accounts	1,464,550	1,441,842	22,708	1.57%
Repurchase agreements	34,074	-	34,074	100.00%
Mortgages	2,933,125	2,830,016	103,109	3.64%
Credit cards, personal loans, and loans on salary	69,935	53,460	16,475	30.82%
Other transactions	514,804	472,320	42,483	8.99%
Debt securities	-	-	-	-
Total	**5,016,488**	**4,797,638**	**218,850**	**4.56%**

Short-term technical forms amounted to 2,013.4 million, up by 5.19% (+99.2 million) compared to last year. Medium/long-term technical forms, basically consisting of mortgages, rose by 119.6 million (+4.15%) reaching a total of 3,003.1 million.

Concerning customer lending the mortgage technical forms comprise 58.5% of net unimpaired loans, down compared to 59.0% at 31 December 2011.

Current accounts comprised 29.2% of net customer lending, down from last year's 30.1%.

The continuing support to the economy and households is clearly seen by the distribution and trend of lending. Private lending rose compared to last year, by 6.34%. Lending to the business sector overall increased by 1.9%, despite the slowdown in the manufacturing industry, mainly due to long-term loans.

Customer Lending	31.12.2012	31.12.2011	Absolute	
(thousands of Euro)			change	%
Private individuals	1,725,892	1,622,920	102,972	6.34%
Manufacturing industry	1,461,636	1,586,846	(125,210)	-7.89%
Sales	402,246	400,037	2,209	0.55%
Services	1,250,157	1,068,116	182,041	17.04%
Public authorities, financial and insurance sector	176,557	119,719	56,838	47.48%
Total	**5,016,488**	**4,797,638**	**218,850**	**4.56%**

However, the ongoing support to the territory can be seen by the growth in non-performing loans, a clear sign that the company, albeit profitable, was affected by the crisis. Net impaired loans at 31 December 2012 amounted to 334.7 million, up by 31.0% compared to 255.6 million of the previous year. The incidence on the total of net customer lending was 6.7%, significantly up compared to last year's 5.3%.

Impaired Loans	31.12.2012	31.12.2011	Absolute	
(thousands of Euro)			change	%
Gross amounts	467,025	363,552	103,473	28.46%
Value adjustments	(132,300)	(107,939)	(24,361)	22.57%
Net Balance	**334,725**	**255,612**	**79,113**	**30.95%**

Net impairment rose by 4.0% to 135.5 million, compared to 130.3 million of the previous year. The degree of cover was up by 44.8% compared to last year's 40.7%, which reflects increasing oversight for these positions. The incidence of net impaired loans on the total of net lending was 2.7%, essentially unchanged with respect to the previous year. The increase in impaired loans could be limited against total loans due to risk monitoring.

Net problem loans amounted to 133.7 million, a 29.3% rise over the 103.4 million of the previous year. The percentage of hedging stood at 9.7%, a slight decrease compared to 10.8% the previous year. The incidence of net problem loans over net lending stood at 2.7%, up compared to 2.1% in the previous year.

Past-due and overdue loans amounted to 38.2 million, a significant increase compared to 11.3 million of the previous year. The percentage of write-downs stood at 3.2%, a 1.6% rise over the previous year.

Net performing loans amounted to 4,681.8 million, a 3.1% rise over the 4,542.0 million of the previous year. The estimation of the process of collective impairment of performing loans led to a 21.6 million adjustment, up by 6.1% compared to 20.4 million in 2011. The percentage of collective write-downs stood at 0.46%, up compared to 0.45% the previous year.

The percentage of gross impaired loans compared to gross lending stood at 9.0%, a 7.4% rise over the previous year.

The main indicators of hedging and asset quality are shown below:

Indices of non-performing loan hedging	31.12.2012	31.12.2011
Hedging of bad debts	44.75%	40.72%
Hedging of impaired exposures	9.71%	10.77%
Hedging of restructured exposures	20.13%	35.25%
Hedging of past due exposures	3.24%	1.55%
Hedging of performing exposures	0.46%	0.45%

Asset quality	31.12.2012	31.12.2011
Gross non-performing loans / gross loans	9.03%	7.38%
Net non-performing loans / net loans	6.67%	5.33%
Gross bad loans / gross loans	4.74%	4.46%
Net bad loans / net loans	2.70%	2.72%
Gross problem loans / gross loans	2.86%	2.35%
Net problem loans / net loans	2.67%	2.16%
Degree of bad loan hedging	44.75%	40.72%
Degree of problem loan hedging	9.71%	10.77%
Degree of non-performing loan hedging	28.33%	29.69%

Financial assets

Impaired Loans	**31.12.2012**	**31.12.2011**	**Absolute**	
(thousands of Euro)			**change**	**%**
Financial assets held for trading (HFT)	104,184	193,740	(89,556)	-46.22%
Available-for-sale financial assets (AFS)	370,247	178,190	192,056	107.78%
Financial assets held to maturity (HTM)	1,080	3,693	(2,613)	-70.75%
Equity investments	3,964	864	3,100	358.60%
Total	**479,475**	**376,488**	**102,987**	**27.35%**

This segment showed the following trends:

- Financial assets held for trading, consisting of 79.5 million in debt securities and 24.7 million in financial trading derivatives (of which 15.8 million pertaining to the fair value option), amounted to 104.2 million, down by 46.2% compared to 193.7 million in 2011;
- Available-for-sale financial assets, consisting of 304.9 million in debt securities, 16.3 million in capital instruments and 49.0 million in mutual investment funds, amounted to 370.2 million, a considerable increased compared to 178.2 million in 2011;
- The financial assets the Company is able and intends to hold to maturity amounted to 1.1 million, a considerable fall compared to 3.7 million in 2011, 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:

Company Name	**Registered office**	**% investment**	**% voting rights**
A. Wholly-owned subsidiaries			
1. Voba Invest S.r.l. in liquidation	Bolzano	100.00%	100.00%
B. Jointly controlled companies			
C. Companies subject to considerable influence			
1. Casa di Cura Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2. Quartiere Brizzi S.r.l.	Chienes	48.50%	48.50%
3. Acquazzurra S.r.l.	Verona	48.98%	48.98%

On 14 June 2011, VOBA Invest S.r.l. was placed in liquidation. The liquidation proceedings started up in 2011 continued in 2012 with the disposal of subsidiary's assets.

Tangible assets

Tangible assets amounted to 103.1 million, a 9.4 million decrease compared to 112.5 million at the end of December 2011 (-8.4%). Capitalised expenditure for improvements on property amount to a total of 1.8 million for the year, while further 2.3 million can be attributed to the purchase of movable assets and electronic systems. The recorded depreciation amounted to a total of 6.6 million.

Finally, property was written down for a total of 6.7 million due to the ongoing renovation of certain properties in addition to the reduction in the value of certain owned properties.

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 3.3 million (4.1 million at year-end 2011). There were no significant investments in tangible assets during the year. Changes recorded in the year were entirely related to the extraordinary maintenance on properties owned by the Company.

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 notes to the accounts.

Customer Deposits

At 31 December 2012 customer assets managed, comprising direct deposits and indirect deposits with institutional counterparties, amounted to 11,308.5 million, a rise of approximately 3.1% over 31 December 2011 (10,965.3 million).

Direct deposits from customers amounted to 4,354.6 million, a rise of 91.6 million (+2.2%) over the figure at 31 December 2011 (4,263.0 million).

Amounts due to customers (2,702.9 million), rose by 16.6% compared to 2,318.2 million the previous year (+384.7 million).

Direct deposits	**31.12.2012**	**31.12.2011**	**Absolute**	
(thousands of Euro)			**change**	**%**
Savings and current accounts, certificates of deposit	2,556,596	2,204,613	351,983	15.97%
Outstanding securities	1,651,734	1,944,853	(293,119)	-15.07%
Other amounts due	50,338	73,524	(23,186)	-31.54%
Reverse repurchase agreements on securities	95,970	40,014	55,955	139.84%
Total	**4,354,637**	**4,263,005**	**91,633**	**2.15%**

Breaking down the figure there was an increase in demand deposits, comprising current and demand accounts (+352.0 million and +16.0%), which makes up 58.7% of direct deposits, against a decrease in time deposits, comprising outstanding securities down by 15.1% (-293.1 million).

Out of the total amount of outstanding securities, 155.6 million pertained to bonds issued under the EMTN programme and were subscribed to by institutional customers, of which 1.6 million subject to fair value hedging.

There was an increase in repurchase agreements, which amounted to 96.0 million compared to 40.0 million in 2011.

At 31 December 2012 indirect deposits from private customers amounted to about 1,937.4 million, up by 1.7% compared to 1,904.7 million in the previous year (+32.7 million).

Indirect Deposits - technical form	**31.12.2012**	**31.12.2011**	**Absolute**	
(thousands of Euro)			**change**	**%**
Indirect deposits - administered	1,153,973	1,099,330	54,643	4.97%
Mutual investment funds	648,914	660,755	(11,841)	-1.79%
Insurance products	134,472	144,616	(10,144)	-7.01%
Total	**1,937,359**	**1,904,701**	**32,658**	**1.71%**

Administered indirect deposits amounted to 1,154.0 million, an increase of 5.0% compared to the previous year, also due to higher values at year-end following a partial recovery of financial markets recorded in the second half of the year.

Assets under management, standing at 783.4 million, were down by 2.7% compared to 2011 (-22.0 million), and were especially affected by the significant market uncertainty.

Shareholders' Equity

At the date of these financial statements the Company held share capital amounting to Euro 76.3 million, divided into 38,137,350 ordinary shares at a par value of Euro 2.00 each.

Net equity at 31 December 2012, including year-end profit of 21.6 million, amounted to 619.1 million, (+14.2% compared to 541.9 million in December 2011).

The increase of about 77.2 million is due to capital increase amounting to 63.6 million carried out in the second half of the year, higher profit of 21.6 million for the period, increase in valuation reserves (+2.4 million) and the effect of distributed earnings amounting to 10.4 million.

Regulatory capital stood at 562.8 million, up by 76.0 million compared to 486.8 million as at 31.12.2011:

Regulatory Capital	**31.12.2012**	**31.12.2011**	**Absolute**	
(thousands of Euro)			**change**	**%**
Tier I capital	487,563	412,052	75,511	18.3%
Tier II capital	75,208	74,709	499	0.7%
Deductible elements	0	0	0	
Regulatory Capital	**562,771**	**486,761**	**76,010**	**15.6%**

The ratio between tier 1 capital and total weighted assets (Core tier 1 ratio) was 10.72%, compared to 9.10% at 31 December 2011. The ratio between regulatory capital and total weighted assets (Total Capital Ratio) stood at 12.4%, up compared to last year's 11.80%. The Company's capital is more than sufficient to meet the minimum requirement set by the Supervisory Body.

CAPITAL RATIOS	**31.12.2012**	**31.12.2011**
Core tier 1 ratio	10.72%	9.10%
Total capital ratio	12.38%	10.75%

For further information see the Notes to the accounts for the statement of changes in shareholders' equity and tables outlining regulatory capital.

1.6. Significant Events during the Financial Year

Share capital increase

The Shareholders' Meeting of 17 April 2012 authorised the Board of Directors to increase the share capital, for cash, in one or more tranches, by 31 December 2016, up to a maximum total amount of a nominal Euro 10,000,000 (ten million) by issue of up to a total maximum number of 5,000,000 (five million) ordinary shares with a par value of Euro 2.00 each, to be offered as an option to the shareholders and any holders of convertible bonds of the Company.

The aim of the share capital increase is to provide the Company with the necessary financial resources to support its growth objectives established in the "Industrial plan 2012-2014", later updated for the 2013-2015 three-year period.

The Board, exercising the authority given to it by the Meeting, by resolution dated 5 October 2012, established the terms for issuing the new Banca Popolare · Volksbank shares.

CONSOB (CONSOB - Italian Securities and Exchange Commission) gave notice that it had approved this on 30 October 2012, pursuant to article 8 of Consob resolution n. 11971/1999, as amended ("Issuers' Regulation) of the Prospectus regarding the offer under option, and the concurrent offer to the public of ordinary shares of Banca Popolare · Volksbank.

Between 5 November and 14 December 2012, the Company finalised the share capital increase transaction through the offer under option and concurrent offer to the public of 3,467,031 ordinary shares with a par value of Euro 2.00, with standard entitlement rights from 1 January 2012, offered at a unit price of Euro 18.35, including the share-premium, and with the same characteristics as the outstanding shares on the date of issue. The shares were offered in option to both the Company shareholders and the public in accordance with a new share for every ten shares held.

The share capital increase led to the issue of 3,467,031 shares for a value of Euro 63,620,019, of which Euro 6,934,062 as capital and Euro 56,685,957 as share premium.

The share capital of the Company therefore increased from Euro 69,340,638 to Euro 76,274,700 divided into 38,137,350 shares with a par value of Euro 2.00 each.

We would like to point out the following with respect to this highly successful share issue:

a) 99% of the shares were subscribed to by existing shareholders;
b) the remaining unsubscribed amount at the end of the option period was allocated to other shareholders who, when subscribing for the quotas due to them, requested the right to exercise any other rights that had not been taken up;
c) the total subscription orders amounted to Euro 78.9 million, exceeding het capital increase amount by about 24%.

The successful outcome of the operation was obviously made possible because of the special relationship between the Company and the shareholding structure, thanks also to the numerous initiatives aimed at developing the association with the Company and the meetings held with the shareholders, also to promote the operation. This operation was also made possible through the excellent work of the sales network, supported by the training and organisation, both before and during the operation, along with the preparations made and planning.

General inspection of the Bank of Italy

The Bank of Italy commenced a general inspection of all divisions of the Company on 15 October 2012.

This inspection of the Company concluded at the end of January 2013. No indications were made or any other information given by the Regulatory Authorities by the time the draft financial statements were approved.

1.7. Mutual Nature and Initiative for Shareholders

1.7.1. Shareholders

At 31 December 2012 the shareholding structure comprised 29,681 Shareholders and 2,627 Banca Popolare · Volksbank shareholders with no voting rights at Shareholders' Meetings. In 2012 there were 10,832 new Shareholders while 789 Shareholder positions were cancelled. There were 123 new Banca Popolare · Volksbank shareholders with no voting rights while 206 withdrew.

The total number of shares increased from 34,670,319 shares to 38,137,350 shares, entirely due to the share issue.

The 2012 shareholders' meeting set the issue price of the shares at Euro 18.50, including the par value of Euro 2.00, and Euro 0.30 as the dividend paid in 2012 as the dividend for 2011.

In 2012, 2,215,953 shares were traded using the trading platform, which corresponds to 3.20% of share capital as at 31 December 2012.

The Company operates in accordance with the "open door" principle, pursuant to article 2528 of the Italian Civil Code ("Admission procedure and open nature of the Company") for cooperative companies.

1.7.2. Sponsorships and donations

Sponsorships

Banca Popolare · Volksbank actively supports numerous sponsorship projects in order to help develop the local community, and at the same time making its presence felt in the area.

The value of sponsorships made during 2012 was for a total of Euro 575 thousand. The sponsorship ranges from sporting activities to culture, socially beneficial initiatives and training. One of Banca Popolare · Volksbank's strong points is promoting youth sporting associations. 49 different sponsorship initiatives were promoted in 2012 in the sporting sector, all over the territory covered by the Bank.

As a whole, Banca Popolare · Volksbank sponsored about 140 associations in 2012, including 75% for sport sponsorship and the remaining 25% for cultural and social events.

Sponsorship activities 2012	**Amount**	**% of total**
(in Euro)		
Sport	431,095	74.92%
Culture	93,665	16.28%
Social	43,400	7.54%
Other	7,273	1.26%
Total	**575,433**	**100.00%**

Donations

Banca Popolare · Volksbank supports the area through donations also, supporting worth causes. Generally, the donations are for public benefits, and can also be given to cultural institutions. Traditionally, Banca Popolare · Volksbank directly contacts local structures within its catchment area for these donations. As a whole, donations of Euro 131 thousand were given in 2012. The beneficiaries included parishes, lay voluntary associations and local institutions.

Environment, saving resources and climate protection

All the stakeholders (customers, workers, shareholders, suppliers, public authorities, etc.) expect Banca Popolare · Volksbank to both drive innovation and demonstrate productive capacity and also for it to protect natural resources and maintain high standards in terms of health and safety.

Environmental protection and energy saving are very important to Banca Popolare · Volksbank, which requests the collaboration of its customers in some cases. For example, all customers have the option of waiving their right to receive paper-based statements of account and notifications and to receive them in electronic format only.

Banca Popolare · Volksbank worked hard to activate the highest number possible of online accesses to statements of account and other banking documents through the E-Post service in 2012. It is expected that the Bank will have made over 90% of documents available to the customers online by the end of 2013.

1.7.3. Annual report on the mutual nature of the cooperative company under art. 2545 of the Italian Civil Code

In compliance with art. 2545 of the Civil Code, a description of the shareholder management policies pursuant to the mutual objectives is provided below.

The purpose of a cooperative company like Banca Popolare · Volksbank is much more than simply trying to optimise profit, and not only to fulfil legal obligations. Being a cooperative company means implementing policies and interventions that relate with the territory and local social context on a day-to-day basis. The shareholders of Banca Popolare · Volksbank know that care and actions are not only for their well-being, but also to spur growth throughout the local social-economic context. The Company 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 · Volksbank 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 2012 the shareholders continued to play a central role for the Company. The link of trust with members and mutual nature are reflected by the fact that 90% of members are also customers of the Company.

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 (shareholders' newsletter), and the financial statements, and ending in the annual general assembly, which confirms its increasing appreciation of the work done and presents an opportunity to meet socially.

These meetings represent an important occasion for contact and interaction between the shareholder base and top management.

Demonstrating the bank's commitment to the shareholding structure are the projects kicked off in 2012 to enhance communication and take care of emotional aspects considered value added (e.g., events, gifts, special offers).

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.

The local provinces do not just represent an expansion of the economic-financial figures for the Company, but also imply a commitment to presence and activities in favour of the local communities. The Company intends to acquire new shareholders to share this view, including 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 · Volksbank. This is not only a legal obligation but above all a group of values the Company sincerely believes in as a foundation for every objective. The mutual nature is the added value of a Company that believes in itself.

1.8. Information pursuant Bank of Italy/CONSOB/ISVAP Documents 2 of 06.02.2009 and 4 of 03.03.2010

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 Notes to the accounts: "Information on risks and related hedging policies".

When preparing the year-end financial statements Banca Popolare · Volksbank 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 notes to the accounts.

Concerning uncertainty in using estimates when preparing the financial statements in the Notes to the accounts 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.

1.9. Disclosure on the structured equity products and exposure to Special Purpose Entities

On the basis of the recommendations made in 2008 by the Financial Stability forum (now Financial Stability Board) and the Bank of Italy (communication no. 671589 of 18 June), we will provide a report on the exposures as at 31 December 2012 towards the financial products that the market considers to be high risk such as Collateralised Debt Obligations (CDO), Residential Mortgage Backed Securities (RMBS), Commercial Mortgage Backed Securities (CMBS), other Special Purpose Entities(SPE) and leveraged finance.

1.9.1. Exposures to SPEs (Special Purpose Entities)

Special Purpose Entities (SPEs) are entities that are set up specially to achieve a specific objective, normally entailing the realisation of credit securitisation transactions and Covered bond issue transactions.

Securitization transactions refer to special purpose vehicles (SPV), established in accordance with article 3 of Italian law no. 130 of 30 April 1999, which places debt instruments on the market, issued to finance the purchase of receivables subject to securitization. The aforesaid receivables act as a guarantee to repayment of the liabilities issued by the SPV.

Covered Bond Transactions are governed by Italian law no. 130 of 30 April 1999, and are debt issues by credit institutions and specifically guaranteed by portfolios of identified assets that are kept separately from the issuer's assets. These assets are sold by the issuer to a specially established SPV.

For further details, please refer to chapter "C. Securitization and asset disposal transactions", Section 1 – Credit Risk in the notes to the accounts and section 3 - Liquidity risk for the self-securitisation transactions.

Finally, note that as set out in table "C.1.3 Exposures from main "third party" securitisation transactions separated by securitised asset type and exposure type", the Company holds a portion of senior tranches of HIPOCAT 15.1.50 TV, registered under the HTM instruments for 1.1 million and regarding a securitization of receivables.

For further details on the aforesaid financial instrument classified as held until expiry, please refer to the notes to the accounts, assets, section 5, and table "C.1.3 Exposures from main "third party" securitization transactions according to securitized asset type and exposure type".

There are no other exposures towards SPEs reported in the financial statements.

1.9.2. **Exposures to structured products**

The main positions in structured credit securities issued by third parties as at 31 December 2012 are represented by corporate bonds, mainly from credit institutions, all in EU countries.

The overall exposure to covered bond and structured securities, in terms of amounts recorded in the financial statements, is 59.4 million, limited exposure with respect to the overall portfolio represented by debt securities (equal to about 10.5% in percentage terms). All the aforesaid instruments were classified as held for trading or available-for-sale (AFS).

They are all financial instruments issued by EU Banks, and the underlying asset is usually represented by residential mortgages from Italy and other European countries, along with receivables from Italy; the ratings generally fluctuate between AA and AAA.

More specifically, the structured securities that amount to 2.6 million on the financial statements are classified in the AFS portfolio for 1.0 million and in the trading portfolio for 1.7 million. All these instruments have remaining maturity equal to or less than three years.

As regards the covered bonds (ABS), they amount to a total of 57.7 million as at 31 December 2012, 8.4 of which are classified under instruments held for trading, and 49.3 million of which are classified as available-for-sale. All these instruments have remaining maturity equal to or less than eight years.

Please refer to the tables under assets, sections 2 and 4 of the notes to the accounts for further details on the financial instruments held for trading and the financial instruments classified as available for sale.

1.10. Exposure to sovereign debt

In accordance with the recommendations of the European Securities and Markets Authority (ESMA), with document no. 2011/226 of 28 July 2011 and Consob with communication DEM/11070007 of 5 August 2011, with reference to the information presented under item A.3.2.1 above "Accounting Portfolios: breakdown by fair value levels" we show the exposure of the Company to sovereign debt, mostly comprising Italian debt securities. As noted in the ESMA document, "sovereign debt" refers to bonds issued by central and local governments and government entities and loans issued to them.

Exposure to sovereign debt - by maturity

(thousands of Euro)

	2012	2013	2014	2015	after 2015
AFS	-	127,594	49,483	32,960	26,715
HFT	-	17,710	-	5,017	1,506
HTM	-	-	-	-	-
Total	**-**	**145,304**	**49,483**	**37,977**	**28,222**

The following shows the breakdown by accounting category and issuing country.

Exposure to sovereign debt - by issuing country

(thousands of Euro)

EU countries	**31.12.2012**			
- Italy	249,461	of which:	AFS	236,751
			HFT	12,710
- Germany	11,524	of which:	AFS	-
			HFT	11,524
Non-EU countries	-			
Total portfolio	**260,985**			

There are no other exposures to sovereign debt 89.2% of the total exposure held has a residual maturity of less than 3 years.

As at 31 December 2012, the sensitivity to a change of 1 bps of credit spread of Italy for the government securities classified as "Financial assets held for trading" amounted to about Euro 12.5 million, whereas for government securities classified as "Financial assets available for sale", the aforesaid sensitivity equalled Euro 237.0 million.

1.11. Business outlook

The global economy showed some signs of improvement in the third quarter of the year. Global growth stood at 3.0%. The main drivers for growth were still the emerging countries, where growth accelerated as expected, and the United States, where growth exceeded expectations. Global financial markets stabilised. The spreads on the bonds of peripheral countries in the Eurozone fell, while prices for a lot of the risky financial assets increased, and most especially, shares. Capital flows to emerging countries were still strong.

The global economy showed further signs of improvement in the final quarter. However, a significant set of economic indicators of global production and commerce did not show further signs of growth. The economies of the peripheral countries in the Eurozone were still underperforming, with signs that some of this weakness was affecting the central countries of the Eurozone.

The forecast for growth in the United States for 2013 is for 2%, with further improvement in the second half of the year. These forecasts reflect the most favourable conditions for the financial market, also with respect to expectations for improvement in the property sector, which should help to improve the financial situation of households and therefore facilitate a more solid recovery of consumption.

The short-term forecasts for the Eurozone are not promising yet, even though the improvement of the accounting situation and the concerted efforts to resolve things at EU level in response to the crisis reduced the tail risks and improved the financial terms of the sovereign debt of the peripheral countries.

Currently, expectations are for a 0.2% fall in 2013, including in relation to delays in the reduction of the sovereign debt spreads and the improved liquidity conditions that the banking system is transmitting to the private credit sector, along with the ongoing levels of uncertainty regarding the definitive resolution of the crisis, despite the progress made to date.

The Eurozone continues to be the main reason behind the slowdown in global growth. More specifically, the risks of a prolonged phase of stagnation in the Eurozone as a whole will continue to increase unless the reforms are made to encourage growth.

The efforts to bring the economic policies of the peripheral countries into line must be supported by the central countries of the Eurozone, including by using the flexibility provided by the Fiscal Compact, in addition to further steps towards full banking integration and greater fiscal integration.

The prospects for a recovery in Italy are closely linked to the consolidation of the adjustment programme, where the credibility and sustainability of the debt will lead to a reduction in returns from the debt securities which will have positive effects on the credit market.

There is expected to be a reduction in GDP in Italy of more than 1.0% in 2013, but growth of 0.7% in 2014. The downgrade of the forecast GDP growth made in the first few months of 2013 indicates a slight drop in the economy (-0.2%), reflecting the worsening of the international framework and the continuing fallout from the crisis, including in terms of the ongoing difficulties in the credit market, characterised by especially high risk profiles.

The expansion of the sovereign debt crisis in Italy over the past year led to significant deterioration of the economic framework. If there had been no sovereign debt crisis, growth forecasts were for over 1.0% both in 2012 and 2013. Cost of debt was the main factor influenced by the crisis, which reached 600 basis points for the ten-year Treasury Bonds (BTP) at the height of the crisis; forecasts are for three points lower for 2012 and two points for 2013. The GDP was down by 2.1% by the end of 2012 and is expected to be down by over 1.0% for 2013.

The first half of 2013 will probably be marked by even weaker domestic demand. If the expectations for a gradual increase in orders (especially foreign) are confirmed, and growth stimulation policies mean that conditions are favourable to continue with honouring financial obligations, the recession could finish in the first half of the year. The second half of 2013 could witness an about-turn in economic activity, with a gradual recovery of productive investments, encouraged also by the maintenance of more favourable credit market terms and an overall improvement in expectations.

However, the forecasts are still for particularly fragmented growth. Against growth in overall investments, the property market is only expected to show signs of weak growth in 2014. Household spending will stay weak in the two-year period 2013-2014, mainly due to the extended drop in purchasing power, and also due to the reduction in public accounts carried out by imposing extra taxation among other things, and the significant uncertainty of job creation along with prospects regarding the timing and extent of the recovery. Household spending propensity will stay particularly weak, with a resulting increase in the propensity towards saving.

The slow, gradual recovery of production is expected only to have positive effects on the job market in the medium term. The slowness with which economic policies are transforming into job growth must also be added to the fact that the labour market is still greatly hampered by limited job mobility. The unemployment rate is expected to increase in 2013, and then level off in 2014.

It is highly likely that exports will be the main contributor to growth. Any depreciation of the Euro could lead to significant benefits in terms of the competitiveness of exports.

The incisive economic policy actions taken in 2012 will allow the consolidation of the public accounts to be speeded up, with an initial positive surplus in both 2013 and 2014. Net debt should fall further both in 2013 and 2014, while the public debt/GDP ratio should increase in 2013 and stabilize in 2014, mainly due to the fact that nominal product dynamics are still weak. There should be a progressive structural improvement towards the end of 2014 thanks to the recovery of production and improvement in the primary balance. A table summarising the expectations for growth in Italy for the main contributors:

GDP forecasts in Italy (% change on previous year)	2013	2014
Bank of Italy (1)	-1.0	+0.7
IMF (2)	-0.7	+0.5
OECD (3)	-1.0	+0.6
European Commission (4)	-0.5	+0.8
Consensus Economics (5)	-0.9	not available

Source

(1) Bank of Italy, Economic Bulletin, January 2013
(2) IMF, World Economic Outlook, October 2012
(3) OECD, Economic Outlook, no. 92, November 2012
(4) European Commission, European Economic Forecast Autumn 2012, November 2012
(5) Consensus Economics, Consensus Forecasts, December 2012

However, uncertainty is still the main factor looming over the prospects in the upcoming two-year period The risk of a further deterioration of the economic framework is mainly linked to the extended political uncertainty and therefore the risk that the necessary economic political choices are spread out, with the real risk, in this case, of renewed weakening of the financial markets, renewed uncertainty on the stability of the Euro system, and therefore a return to risk levels and debt costs like those recorded in 2011 and the first half of 2012. These factors are felt immediately, reducing domestic demand and further narrowing credit conditions.

In an unfavourable scenario where there is a return to the high government security yields that prevailed at the beginning of July, a drop in confidence by households and companies similar to that experienced at the beginning of 2012, and lack of progress in credit availability, the product dynamics may be 0.7% less than estimated, both this year and next.

The resolution of the political uncertainties and continuation of the reforms started in 2012 would result in prolonged stability in financial market conditions, limiting the effects that the worsening quality of the bank loan portfolios had in the last few years, and limiting the negative effects of this to the cost and availability of credit.

On the other hand, more favourable developments would lead to further improvements in the Eurozone, also following the progress in the reforms undertaken by the government, especially with respect to reform leading to greater banking union and fiscal unification.

1.12. 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 Notes to the accounts, part A, Section 3.

1.13. Proposal for the Allocation of Year-End Profit

Dear Members,

We submit for your approval the financial statements for the year 2012, which ended with a net profit of Euro 21,582,855 and was subject to audit by the auditing firm BDO S.p.A., whose independent auditing report is attached to these financial statements.

Pursuant to article 6, 1st paragraph, letter a) of Italian Legislative Decree no. 38/2005, a portion of the earnings during the year corresponding to the capital gains recorded in the income statement, after tax, which result from application of the fair value criteria, must be recorded in a restricted reserve. The following is not included in the above:

- the capital gains recorded in the income statement resulting from the fair value measurement of the financial instruments held for trading;
- the capital gains recorded in the income statement related to foreign exchange and hedging transactions.

In accordance with the decision by the Shareholders' meeting of 17 April 2012, the aforesaid restricted reserve, constituted in accordance with the above mentioned regulations, amounted to Euro 317,893 as at 31 December 2011.

The amount of the aforesaid reserve, calculated with reference to 31 December 2012, was Euro 1,795,001, mainly due to the fair value measurement of own liabilities resulting from the change of own creditworthiness.

Therefore the portion of restricted earnings to allocate to the aforesaid reserve is Euro 1,477,108. The distributable earnings made during the year, therefore amounted to Euro 20,105,747.

The portion to allocate to the legal reserve in accordance with the provisions of art. 32 of Italian Law Decree no. 385 of 1 September 1993 is equal to at least 10% of the distributable net profit. In accordance with the above mentioned regulation, we propose to allocate Euro 2,200,000.

The distributable net profit was Euro 17,905,747, minus that amount.

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

Net profit for the year	**21,582,855**
Unavailable profit reserve under art. 6, paragraph 2, Italian Legislative Decree no. 38 of 28 February 2005	1,477,108
Net year-end profit after amount required for unavailable profit reserve under art. 6, paragraph 2, Italian Legislative Decree no. 38 of 28 February 2005	20,105,747
To the legal reserve	2,200,000
Net distributable profit	**17,905,747**
Dividend of Euro 0.3 on 38,137,350 eligible shares	11,441,205
Remaining profit allocated to extraordinary reserve	6,464,542

REPORT BY THE BOARD OF STATUTORY AUDITORS

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

Dear Members,

Summary and results of supervisory actions

During the period which ended 31 December 2012 the board of statutory auditors performed the audits required by the Italian civil code, by Italian 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 Italian Civil Code - namely art. 2429 – and art. 153(1) of Italian Legislative Decree no. 58 of 24 February 1998.

With regard to the activities performed in 2012, 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 management, development and on transactions of significant equity, economic and financial impact;
- in 2012 we took part in the shareholders' meeting of 17 April 2012 and all the meetings of the Board of Directors (25 meetings) and the executive management committee (1 meeting) and through the Chairperson, as a member of it, in the strategic commission (16 meetings) and we can confirm validity of the management through periodic checks (27 meetings); 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 Italian Legislative Decree 231/2001. 231/2001. The necessary information was exchanged with the Supervisory Board, which Mr Joachim Knoll is a member of;
- we monitored, without making any findings, the adequacy of the organisational structure, the system of internal controls, the risk management system, 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 and administration 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 non-performing and impaired positions;
- we received the opinion of the independent auditors, BDO S.p.A., Milan, as required by art. 2409-septies of the Italian 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 evaluated the independence of the independent auditing firm in accordance with art. 17 of Italian Legislative Decree no. 39/2010;
- we checked the transactions falling within the scope of article 136 of the TUB, and monitored compliance with the obligation, under art. 2391-bis of the Italian Civil Code, to adopt rules ensuring transparency and substantive and procedural correctness of transactions with related parties, and no findings were made. The issue of transactions

with related parties is described under section "H" of the Notes to the accounts and in special section in the Directors' Report;

- the Bank's governance model is currently under revision, and the Strategic Commission's work was suspended within the scope of that in 2013;
- with reference to the "Integrated control system" project, by decision of the Board of Directors of 26.10.2012, the Internal Control Committee was established in BPAA in order to improve the efficiency and effectiveness of the control system and guarantee better risk monitoring;
- we met with the Manager responsible for the preparation of corporate accounting documents who confirmed the adequacy and actual application of the procedures pertaining to the financial reporting of the bank;
- the Board of Directors is currently carrying out an evaluation of its adequacy, size, composition and function;
- 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 of the Italian Civil Code were submitted by members nor were there any major complaints made by any third parties and no facts emerged which warranted reporting or mention in our Report;
- in the period October 2012/January 2013 the bank was subject to a general inspection by the Bank of Italy; the results of that inspection have not yet been provided.

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 2012, we report the following:

- pursuant to art. 2409-bis of the Italian 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 25 March 2013 the independent auditors submitted its report on the financial statements at 31 December 2012 pursuant to articles 14 and 16 of Italian 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 have verified the layout of the financial statements, their general compliance with regulations in terms of format and structure, also taking into consideration IAS/IFRS international accounting standards and the provisions issued by the Bank of Italy in Circular no. 262 of 22 December 2005 on the "technical format" of bank and financial statements;
- the notes to the accounts contain detailed information on the items of the Balance Sheet – concerning goodwill and other assets that underwent impairment tests also with the support of the independent auditors – and the Income Statement, together with other information required to provide a true and fair representation of the Bank's equity, economic and financial position;
- the Directors' Report provides an adequate description of operations during the financial year and explains the Bank's situation and results of operations in an accurate, well-balanced and thorough manner. The report was drafted on 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 Italian Civil Code;
- the Manager responsible, Mr Alberto Caltroni issued the certificate under art. 154-bis of the Italian Legislative Decree 58/98 on the Financial Statements for the Year on 22 February 2013;
- concerning the distribution of dividends, taking into consideration instructions from the Bank of Italy dated 13 March 2013, equity ratios and earnings forecasts for the bank, we would like to inform you that we agree with the proposal for the distribution of the dividend.

The Board of Statutory Auditors confirms that the 2012 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, 28 March 2013

The Board of Statutory Auditors
Heinz Peter Hager – Chairman
Georg Hesse - Standing Auditor
Joachim Knoll - Standing Auditor

CERTIFICATION OF THE YEAR-END FINANCIAL STATEMENTS

YEAR-END FINANCIAL STATEMENTS CERTIFICATION PURSUANT TO 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 Manager responsible for preparing the Company`s financial reports, of Banca Popolare dell’Alto Adige Società Cooperativa per Azioni, taking into account the provisions of Article 154-bis, paragraphs 3 and 4 of Legislative Decree no. 58 of 24 February 1998, do hereby certify to:

   - the adequacy in relation to the Company`s features and

   - the actual application

   of the administrative and accounting procedures employed to draw up the Company’s financial statements during 2012.

2. Verification of the appropriateness and effective application of the administrative and accounting procedures employed to draw up the Company’s financial statements as at 31 December 2012 was based on methods defined by Banca Popolare dell’Alto Adige Società Cooperativa per Azioni consistently with the Committee of Sponsoring Organisations of the Tradeway Commission Model (“CoSO Report”) which is internationally accepted framework for internal control systems.

3. The undersigned also certify that:

   3.1. the Company’s financial statements as at 31 December 2012:

   a) have been prepared in compliance with applicable international accounting standards recognized by the European Community pursuant to European Parliament and Council Regulation no. 1606/2002 of 19 July 2002;
   b) correspond to the results of the books and accounts;
   c) give a true and fair presentation of the assets, liabilities, profit or loss and financial position of the issuer.

   3.2. The report on operations includes a fair review of the development and operating margin, as well as of the position of the issuer, together with a description of the main risks and uncertainties.

Bolzano, 22 February 2013

Chairman of the Board of Directors

Manager responsible for preparing the Company’s financial reports

INDEPENDENT AUDITORS' REPORT

BDO

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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 of and for the year ended December 31, 2012, 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.

   The financial statements present for comparative purposes prior year data. As explained in the notes to the financial statements, the Directors have re-presented comparative figures related to the prior year's financial statements with respect to the data previously reported and audited by us, on which we issued an auditor's report dated March 23, 2012. These changes in comparative figures and related disclosures included in the notes to the financial statements have been audited by us for the purpose of expressing our opinion of the financial statements as of and for the year ended December 31, 2012.

3. In our opinion, the financial statements of Banca Popolare dell'Alto Adige società cooperativa per azioni as of and for the year ended December 31, 2012 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 of and for the year ended December 31, 2012.

Verona, March 25, 2013

BDO S.p.A.

Signed by:
Alfonso Iorio
(Partner)

FINANCIAL STATEMENTS

Balance Sheet

Assets	31.12.2012	31.12.2011
(in Euro)		
10. Cash and cash equivalents	49,607,040	35,768,088
20. Financial assets held for trading	104,183,827	193,740,229
40. Available-for-sale financial assets	370,246,650	178,190,285
50. Financial assets held to maturity	1,080,183	3,693,152
60. Due from banks	156,512,370	172,171,200
70. Loans to customers	5,016,487,555	4,797,638,012
100. Equity investments	3,963,929	864,350
110. Tangible assets	103,089,911	112,498,405
120. Intangible assets	43,657,903	44,473,436
of which goodwill	*40,392,116*	*40,392,116*
130. Tax assets	45,484,327	36,613,258
a) current	*25,173,433*	*19,076,568*
b) prepaid	*20,310,894*	*17,536,690*
150. Other assets	53,102,765	44,507,859
Total assets	**5,947,416,460**	**5,620,158,274**

Liabilities and shareholders' equity	31.12.2012	31.12.2011
(in Euro)		
10. Due to banks	771,855,296	670,107,386
20. Due to customers	2,702,436,436	2,314,391,919
30. Outstanding securities	1,202,431,521	1,312,813,889
40. Financial liabilities held for trading	12,475,941	15,439,498
50. Financial liabilities carried at fair value	449,769,288	635,798,800
80. Tax liabilities	45,918,185	41,603,297
a) current	*21,191,339*	*17,517,471*
b) deferred	*24,726,846*	*24,085,826*
100. Other liabilities	121,366,243	69,171,387
110. Staff severance indemnities	19,548,484	17,252,954
120. Provisions for risks and charges:	2,552,358	1,684,911
a) pensions and similar commitments	-	-
b) other provisions	*2,552,358*	*1,684,911*
130. Valuation reserves	71,386,529	*(*) 69,019,833*
160. Reserves	247,359,940	*239,464,579*
170. Share premiums	202,458,684	*145,772,727*
180. Capital	76,274,700	*69,340,638*
200. Profit (loss) for the year	21,582,855	*(*) 18,296,456*
Total liabilities and shareholders' equity	**5,947,416,460**	**5,620,158,274**

(*) Amount restated following the retrospective application of the new version of the standard "IAS 19 - Employee benefits".

Income Statement

Income Statement	31.12.2012	(*) 31.12.2011
(in Euro)		
10. Interest income and similar income	188,768,340	178,408,520
20. Interest expense and similar charges	(70,623,185)	(61,553,704)
30. Interest margin	**118,145,155**	**116,854,816**
40. Commission income	73,916,515	73,667,224
50. Commission expense	(8,670,838)	(5,359,548)
60. Net commissions	**65,245,677**	**68,307,676**
70. Dividends and similar income	230,003	334,734
80. Net income from trading activities	3,347,331	(6,592,396)
100. Profit (Loss) from sale or repurchase of:	4,079,153	1,080,510
a) receivables	*97,128*	*97,153*
b) financial assets available for sale	*2,802,008*	*205,996*
c) financial assets held to maturity	*3,769*	*5,865*
d) financial liabilities	*1,176,248*	*771,496*
110. Net profit (loss) from financial assets and liabilities carried at fair value	1,080,951	438,805
120. Banking margin	**192,128,270**	**180,424,145**
130. Net value adjustments/write-backs for impairment of:	(28,294,658)	(19,544,776)
a) receivables	*(26,552,425)*	*(19,605,040)*
b) financial assets available for sale	*(1,838,500)*	-
c) financial assets held to maturity	-	-
d) other financial transactions	*96,267*	*60,264*
140. Net income from financial management	**163,833,612**	**160,879,369**
150. Administrative costs:	(124,754,343)	(128,198,154)
a) personnel costs	*(73,739,574)*	*(75,113,896)*
b) other administrative expenses	*(51,014,769)*	*(53,084,258)*
160. Net allocations to provisions for risks and charges	(1,095,891)	(891,860)
170. Net adjustments/write-backs on tangible assets	(13,371,336)	(8,346,220)
180. Net adjustments/write-backs on intangible assets	(1,432,008)	(1,425,122)
190. Other operating costs/income	12,601,770	10,737,055
200. Operating costs	**(128,051,808)**	**(128,124,301)**
210. Profit (Loss) on equity investments	(236,393)	317,893
240. Profit (Loss) from disposal of investments	(8,978)	53,537
250. Current operating profit (losses) before tax	**35,536,433**	**33,126,498**
260. Year-end income taxes for current operations	(13,953,578)	(14,830,042)
270. Net current operating profit (loss) after tax	**21,582,855**	**18,296,456**
290. Profit (loss) for the year	**21,582,855**	**18,296,456**

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

Statement of Comprehensive Income

Items *(in Euro)*	31.12.2012	(*) 31.12.2011
10. Profit (loss) for the year	**21,582,855**	**18,296,456**
Other net of tax income items		
20. Available-for-sale financial assets	5,200,851	(4,130,835)
90. Actuarial profit (loss) on defined benefit plans	(2,834,155)	218,655
110. Total other net of tax income items	**2,366,696**	**(3,912,180)**
120. Comprehensive income (Item 10+110)	**23,949,551**	**14,384,276**

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

Statement of Changes in Shareholders' Equity

Statement of Changes in Shareholders' Equity from 1 January to 31 December 2012

(in Euro)	Balance at 31.12.2011	Adjustment to opening balances	Balance at 01.01.2012	Allocation of net result from previous year		Changes during the year								Shareholders' equity at 31.12.2012
						Changes to reserves	Equity Transactions						Overall yield for 2012	
				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**	**-**	**-**	**-**	**6,934,062**	**-**		**-**	**-**	**-**	**-**	**76,274,700**
a) ordinary shares	69,340,638	-	69,340,638	-	-	-	6,934,062	-	-	-	-	-	-	76,274,700
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premiums	**145,772,727**	**-**	**145,772,727**	**-**	**-**	**-**	**56,685,957**	**-**	**-**	**-**	**-**	**-**	**-**	**202,458,684**
Reserves	**239,464,579**	**-**	**239,464,579**	**7,895,361**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**247,359,940**
a) earnings	239,464,579	-	239,464,579	7,895,361	-	-	-	-	-	-	-	-	-	247,359,940
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserve (*)	**69,019,833**	**-**	**69,019,833**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,366,696**	**71,386,529**
Capital instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year (*)	**18,296,456**	**-**	**18,296,456**	**(7,895,361)**	**(10,401,095)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,582,855**	**21,582,855**
Shareholders' Equity	**541,894,233**	**-**	**541,894,233**	**-**	**(10,401,095)**	**-**	**63,620,019**	**-**	**-**	**-**	**-**	**-**	**23,949,551**	**619,062,708**

(*) Amount restated following the retrospective application of the new version of the standard "IAS 19 - Employee benefits".

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

(in Euro)	Balance at 31.12.2010	Adjustment to opening balances (*)	Balance at 01.01.2011	Allocation of result from previous year		Changes during the year								Shareholders' equity at 31.12.2011
						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 premiums	**145,772,727**	**-**	**145,772,727**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**145,772,727**
Reserves	**232,426,318**	**(349,961)**	**232,076,357**	**7,388,222**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**239,464,579**
a) earnings	232,426,318	(349,961)	232,076,357	7,388,222	-	-	-	-	-	-	-	-	-	239,464,579
b) other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Valuation reserves	**72,932,013**	**-**	**72,932,013**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,912,180)**	**69,019,833**
Capital instruments	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Treasury shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit/(Loss) for the year	**17,439,357**	**349,961**	**17,789,318**	**(7,388,222)**	**(10,401,096)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,296,456**	**18,296,456**
Shareholders' Equity	**537,911,053**	**-**	**537,911,053**	**-**	**(10,401,096)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,384,276**	**541,894,233**

(*) Amount restated following the retrospective application of the new version of the standard "IAS 19 - Employee benefits". The effects from application of the new version of IAS 19 are recorded under the column "Adjustment to opening balances".

Cash Flow Statement

A. OPERATING ACTIVITIES	31.12.2012	(*) 31.12.2011
(in Euro)		
1. Operations	**57,514,684**	**53,101,084**
- Interest income (+)	188,768,340	178,408,520
- Interest expense (-)	(70,623,185)	(61,553,704)
- Dividends and similar income (+)	230,003	229,734
- Net commissions (+/-)	65,245,677	68,307,676
- Personnel costs (-)	(73,739,574)	(75,113,896)
- Other costs (-)	(53,224,895)	(55,274,240)
- Other revenues (+)	14,811,896	12,927,036
- Taxes and duties (-)	(13,953,578)	(14,830,042)
- costs/revenues from groups of assets being disposed of, net of tax effect (+/-)	-	-
2. Cash flows generated by/used for financial assets	**(319,614,779)**	**(398,740,466)**
Financial assets held for trading	119,589,688	116,903,885
- financial assets carried at fair value	-	-
- Available-for-sale financial assets	(191,092,857)	(91,306,247)
- Loans to customers	(246,400,732)	(305,382,381)
- Due from banks: on demand	(7,950,823)	3,659,124
- Due from banks: other receivables	23,609,653	(125,400,418)
- Other assets	(17,369,708)	2,785,571
3. Cash flows generated/absorbed by financial liabilities	**224,793,509**	**350,271,434**
- Due to banks: on demand	(30,549,422)	22,900,422
- Due to banks: other payables	132,297,332	108,469,077
- Due to customers	388,044,517	136,519,736
- Outstanding securities	(109,206,120)	95,419,208
- Financial liabilities held for trading:	(29,649,511)	(20,192,342)
- Financial liabilities carried at fair value	(184,948,561)	30,907,165
- Other liabilities	58,805,274	(23,751,832)
Net cash flow generated/absorbed by operating activities	**(37,306,586)**	**4,632,052**

B. INVESTMENT ACTIVITIES		
1. Cash flows generated by	**11,817,719**	**8,024,086**
- Sale of equity investments	(236,393)	-
- Dividends from equity investments	-	105,000
- Sale/redemption of financial assets held to maturity	2,616,738	7,865,209
- Disposal of tangible assets	9,437,374	53,877
- Disposal of intangible assets	-	-
- Disposal of business branches	-	-
2. Cash flows absorbed by	**(17,125,248)**	**(3,198,618)**
- Purchase of equity investments	(3,099,579)	(30,000)
- Purchase of financial assets held to maturity	-	-
- Purchase of tangible assets	(13,409,194)	(2,393,106)
- Purchase of intangible assets	(616,475)	(775,512)
- Purchase of business branches	-	-
Net cash flow generated/absorbed by investment activities	**(5,307,529)**	**4,825,468**

C. FUNDING ACTIVITIES		
- Issue/Purchase of treasury shares	63,620,019	-
- Issue/Purchase of equity instruments	3,234,144	(4,740,526)
- Dividend distribution and other purposes	(10,401,096)	(10,401,096)
Net cash flow generated/absorbed by funding activities	**56,453,067**	**(15,141,622)**
NET CASH FLOW GENERATED/ABSORBED DURING THE YEAR	**13,838,952**	**(5,684,102)**

RECONCILIATION	31.12.2012	31.12.2011
Cash and cash equivalents at the beginning of the year	35,768,088	41,452,190
Total cash generated/absorbed during the year	13,838,952	(5,684,102)
Cash and cash equivalents: impact of exchange differences	-	-
Cash and cash equivalents at year end	**49,607,040**	**35,768,088**

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

NOTES TO THE COMPANY'S 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, in accordance with the procedures established by EU Regulation no. 1606 of 19 July 2002.

The approved international accounting standards in effect as at 31 December 2012 were applied in the preparation of the financial statements, including the interpretative documents known as SIC and IFRIC.

For an overview on the standards approved during 2012 or those approved in previous financial years, whose application is prescribed or permitted for 2012, please refer to "Section 4 – Other Aspects" below where the principal impacts on the Company are also illustrated.

In addition, the financial statements as at 31 December 2012 were drafted on the basis of "Instructions for drafting company financial statements and the consolidated financial statements of banks and parent company financial companies of banking groups" issued by the Bank of Italy, by Order of 22 December 2005, which provides, among other things, for the obligation to prepare the financial statements in accordance with the instructions contained in Circular no. 262 of 22 December 2005 "Bank financial statements: schedules and rules for drawing them up" as amended. These Instructions impose requirements on what schedules to use for the financial statements and how to fill them out, along with what to put into the Notes to the accounts.

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 capital and financial situation of Banca Popolare dell'Alto Adige.

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 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:

- *Business as a going concern*: the financial statements are drafted assuming that the bank will continue as a going concern;
- *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 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. This grouping together help clarify 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.
- *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 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;
- determination of impairment of the tangible assets;
- 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

There were no significant events that took place in the period between the reference date for the financial statements and the approval date of the draft financial statements by the Board of Directors.

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 22 February 2013 and shall be submitted for the approval of the general Shareholders Meeting with first call scheduled for 18 April 2013 and second call for 19 April 2013.

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 2012 financial year.

Approval Regulations	Title	In force for the financial year in course as of:
EC. Reg. no. 475 of 5 June 2012	IA 19 - Employee benefits - The amendments should help readers understand more clearly how the defined benefit plans influence the capital-financial position, the profit and loss and the cash flows of the entity. The aim of this Standard is to define how to account for and provide additional information on employee benefits.	1 January 2013 (may be applied beforehand)
EC. Reg. no. 475 of 5 June 2012	IAS 1 - Presentation of financial statements - Exposure of the other components of the statement of comprehensive income in the financial statements.	1 January 2013 (may be applied beforehand)
EC. Reg. no. 1205 of 22 November 2011	IFRS 7 - Financial instruments - Additional information - Transfer of financial assets. The objective of these amendments is to permit the readers to more clearly evaluate the exposures to risk related with said transfers, and the effects of said risks on the financial position of the entity. The objective is to promote transparency of information on the transfer operations, especially operations that involve the securitization of the financial assets.	31 December 2012

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, with obligatory application starting - for financial statements drawn up in accordance with the calendar year - from 1 January 2013 or subsequently.

Approval Regulations	Title	In force for the financial year in course as of:
475/2012 of 05.06.2012	IAS 1 - Presentation of financial statements - Exposure of the other components of the statement of comprehensive income in the financial statements. The objective is to increase the clarity of the increasing number of items comprising other components of the statement of comprehensive income and help readers to distinguish between the other components of statement of comprehensive income that may or may not be reclassified subsequently in the statement of profit (loss) for the year.	1 July 2012
1254/2012 of 11.12.2012	IFRS 10 - Consolidated Financial Statements - The objective is to provide a single model for the consolidated financial statements based on a new concept of control, applicable to all types of entities and requiring the presence of all the following elements: power over the entity, exposure or rights to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of returns. This new standard replaces IAS 27 - Consolidated and Separate Financial Statements - and SIC 12 - Consolidation – Special Purpose Vehicle (SPV). IFRS 11 - Joint arrangements - The objective is to outline the accounting by entities that jointly control an arrangement. These standards are based on the rights and obligations defined by the arrangements that the entities are party to, and which the entity must specify in order to identify the type: Joint control (assets and liabilities are accounted on the basis of the proportion of rights and obligations each has) or Joint venture (which can only be accounted for using the net equity method). The new standard replaces IAS 31 - Interests in Joint Ventures - and SIC 13 - Jointly controlled entities - Non-monetary Contributions by Venturers. IFRS 12 - Disclosure of Interests in Other Entities - The objective of this standard is to provide information that allows the readers to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The disclosure is required to be applied by an entity that has an interest in: subsidiaries, joint arrangements, associates and unconsolidated structured entities. IAS 27 - Separate financial statements - IAS 28 - Investments in associates and joint ventures - These standards were reviewed in accordance with the introduction of IFRS 10, 11 and 12.	1 January 2014
1255/2012 of 11.12.2012	IFRS 1 - First time Adoption of International Financial Reporting - Severe hyperinflation and removal of fixed dates set for first-time adopters. The objective of the amendments is to authorise the entities, subject to severe hyperinflation, to measure all assets and liabilities at fair value instead of the amounts stated in the opening statement of financial position IAS 12 - Income taxes - Deferred taxes: recovery of underlying assets. The objective of the change was to introduce an exception to the measurement standard, where the fair model value is assumed to be applied when calculating the carrying amount of the property investment: the entity calculates the value of the liabilities and deferred tax assets in accordance with the amount expected to be recovered or settled using the relevant tax rate.	

	IFRS 13 - Fair Value Measurement - The standard defines the concept of fair value (the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date) and provides a frame of reference to measure the fair value of financial and non-financial assets and liabilities. In addition, additional information must be provided in accordance with the standard on how the measurements were made. IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine
1256/2012 of 13.12.2012	IFRS 7 - Financial instruments: Disclosures - Offsetting financial assets and liabilities. This amendment requires the entity to provide a disclosure when allows the real or potential effects of offsetting agreements to be evaluated on the equity and financial position. IAS 32 - Financial instruments: exposure in financial statement - Offsetting financial assets and liabilities. It specifies that a financial asset and a financial liability should be offset and the net amount reported when an entity has a legally enforceable right and expects to obtain settlement of two or more separate financial instruments and wishes to acknowledge offset.

Finally, the list of international accounting standards, amendments and interpretations issued by the IASB are shown below pending confirmation by the European Commission.

Accounting standard/ Interpretation/ Amendment	Date of approval by the IASB	Proposed date of entry into effect
IFRS 9 “Financial Instruments” 1st part	12.11.2009	from the financial years beginning from 1 January 2013
Amendment to IFRS 9 “Financial Instruments” – Addition to IFRS 9 for Financial Liability Accounting	28.10.2010	from the financial years beginning from 1 January 2013
Amendment to IFRS 9 “Financial Instruments” – Deferral of Mandatory Effective date of IFRS 9 to 2015	16.12.2011	postponement of application of standard from the financial years beginning from 1 January 2015
Amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans	13.03.2012	from the financial years beginning from 1 January 2013
Annual Improvements 2009-2011 Cycle	17.05.2012	from the financial years beginning from 1 January 2013
Amendment to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance	28.06.2012	from the financial years beginning from 1 January 2013
Amendment to IFRS 10, IFRS 12 and IAS 27: Investment Entities	31.10.2012	from the financial years beginning from 1 January 2014

Amendments to the international accounting standard IAS 19 – Employee benefits

On 16 June 2011, the International Accounting Standards Board (IASB) published amendments to IAS 19 Employee benefits (hereinafter “the amendments to IAS 19").

In June 2012, the endorsement process was finalised with approval of EU Regulation no. 475 of 5 June 2012 published in the Official Gazette of the European Union.

The IAS adopters must apply the amendments to IAS 19, at the latest, starting from the financial statements of the year starting on 1 January 2013 or subsequently. In any case, it can also be applied before this date. Banca Popolare dell'Alto Adige decided to apply the new standard early, starting from the financial year closed as at 31 December 2012.

The objective of the amendments to IAS 19 is to help readers understand more clearly how the defined benefit plans influence the capital-financial position, the profit and loss and the cash flows of the entity. The objective of this Standard is to define how to account for and provide additional information on employee benefits.

The new standard makes a number of different changes to the pervious version. With specific reference to the type of benefits to employees commonly found in the Italian IAS adopters, we summarise the main changes that affect the financial statements below:

- *Current Service Cost*: the new provisions provide that the cost components recorded on the financial statements must be considered as an operating cost and not a financial cost;
- *Annual rate of return of the assets*: the hypothesis regarding the assumed annual rate of return of any assets held to cover the assets allocated must be the same as the annual rate of time-discounting used in the measurements;

- *Recognition of actuarial gains and losses*: the new IAS 19 provides that all actuarial gains and losses matured by the balance sheet date must be immediately recognised in the “Statement of Comprehensive Income” (art. 57, paragraph d.ii). Therefore the option of deferring this recognition using the corridor method was eliminated (no longer provided for), and they may no longer be recognised in the income statement. Therefore, the standard allows recognition of the actuarial gains/losses only using the “Other Comprehensive Income” (“OCI”) method;
- *Past Service Costs*: any costs related to changes in the plans that lead to changes in past services must be recognised in the period in which the plan was changed. These costs may no longer be deferred to future service periods;
- *Difference between “short term benefits” and “other long term benefits”*: the new standard provides that the difference is based on the expected time of payment of the benefits for measurement purposes, and not when the employee can legally claim them. This means for example that the measurement and the classification of certain instruments may not be consistent, for example if the company is not capable, legally, of deferring payment beyond twelve months from the balance sheet date;
- *“Termination benefits”:* any benefit that entails an obligation of future service does not fall under the category of termination benefits, with a resulting reduction in the number of agreements that can fall under this category. In addition, a liability for termination benefits may be recognised in the financial statements when the entity recognises any restructuring cost, or when it cannot avoid offering the termination benefit. This could lead to the recognition of these benefits at a later time from the time established under the old standard.

As required under IAS 8, Accounting Principles, changes in the estimates of errors, expressly referred to by IAS 19§173, the entity must apply the new standard retroactively, with the following exceptions:

a) the entity does not have to adjust the carrying value of the lie outside the range of application of the standard if the changed cost related to the employee benefits is included in the carrying amount prior to the date of initial application. The date of initial application is the beginning of the first financial year presented in the first financial statements in which the entity adopted this Standard;
b) for financial statements for years that began before 1 January 2014, the entity does not have to present comparative information for the additional information pursuant to paragraph 145 on the sensitivity of the obligation for defined benefits.

The changes resulting from the new standard must therefore be accounted for on a retrospective basis, as established by IAS 8 on a general basis for all changes to the accounting standards, by reprocessing the capital-financial position back to the first day of the earliest financial year presented for comparative purposes, and the capital-financial positions and income statements presented for comparative purposes.

With reference to the Banca Popolare dell'Alto Adige, note that in the past, as one of the possible options permitted by the previous version of IAS 19, it was decided to charge all the actuarial gains and losses directly to the income statement.

We explain the effects resulting from application of the new version of IAS 19 in detail below, by restating the corresponding values related to the financial statements for the year ended on 31 December 2011.

Restatement of the items affected by early application of IAS 19 - Employee Benefits

The accounting statements for the year prior to the financial statements for the year ended on 31 December 2012 that were published for comparative purposes, are restated to retroactively show the changes to the standard, on the basis of the estimates prepared by the external actuary hired for the purpose.

The adoption of the new provisions of standard IAS 19 did not impact the shareholders' equity accounted for, since the actuarial losses and gains are now charged directly to a specific item in the equity reserve instead of being charged to the income statement as had been done in the past.

The direct charging to the equity reserve led to a misalignment between the fiscal treatment and the treatment in the financial statements, which was neutralised by recognition of the related deferred/prepaid taxes.

Therefore, as a whole, the equity accounted for and calculated on the basis of the new regulation is not different from what would have resulted from application of the provisions applied up to the previous financial years.

With reference to the information for 2011, presented in these financial statements for comparative purposes, the actuarial gains and losses, previously accounted for under the income statement “Personnel costs” were restated, in a specific equity reserve, included under the shareholders' equity item "Capital and Reserves". The corresponding taxation was presented under the income statement item "Tax on current operations for the period".

More specifically, on 31 December 2011, the restatement of the actuarial gains/losses led to 0.2 million less being stated in the income statement compared to what had originally been published, and at the same time, an increase in the equity reserve of the same amount.

The following table shows the items involved in the restatement as at 31 December 2011 and the related quantitative impacts:

Restatement of the valuation reserves	**31.12.2011**
Personnel costs - Actuarial gains	(323,082)
Income taxes - current operations	104,427
Net profit	**(218,655)**

In the balance sheet of 31 December 2011, the previous effects were already presented under the "Capital and Reserves" item of the shareholders' equity due to the allocation of the result obtained in previous years.

Accounting treatment of certain categories of prepaid taxes

By letter no. 677311/12 dated 7 August 2012, the Bank of Italy provided instructions on the accounting treatment of certain categories of prepaid taxes in accordance with Italian law no. 214/2011 (DTA).

More specifically, in order to take account of the different nature of said DTAs compared to the traditional deferred tax assets, a specific item "pursuant to Italian Law 214/2011" of Item 130 b) "Prepaid tax assets" was required to be noted showing the amounts of any such assets.

This situation does not apply to the Banca Popolare dell'Alto Adige.

Domestic tax consolidation option

Starting from financial year 2011, Banca Popolare dell'Alto Adige and the subsidiary VOBA Invest S.r.l. in liquidation availed of the "domestic tax consolidation" option, governed by articles 117-129 of the TUIR (Consolidation Act on Income Taxes) and introduced into the tax legislation by Italian Legislative Decree 344/2003.

This tax regime permits individual subsidiaries to take part of tax consolidation after having calculated the tax owed, to transfer the corresponding taxable income (or tax loss) to the Parent Company, who will calculate - making the adjustment for the intercompany interest expense provided regarding the deductibility of interest expense - a consolidated taxable income or tax loss, as the algebraic sum of its own income/losses and of the individual subsidiaries forming part of the consolidation, with identification of the tax credit or debit with respect to the Inland Revenue Authorities.

The offset of the transfers resulting from the tax gains and losses between the Parent Company and the subsidiaries forming part of the tax consolidation are governed by specific agreements. These transfers are calculated by applying the IRES rate in effect to the taxable amounts owing by the companies involved. With respect to companies with tax losses, the offsetting, calculated as set out above, is recognised by the Parent Company, to the subsidiary for the losses made after establishing the domestic tax consolidation regime, where said losses form part of the taxable amounts owed by the group. Losses made prior to establishing the domestic tax consolidation must be offset in its own taxable amounts owing only by the consolidated party in accordance with tax regulations in effect.

The option is applicable to the three-year period 2011-2013.

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

The financial statements as at 31 December 2012 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 2012 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 and the derivatives separated on an accounting basis by the underlying structured financial instrument when the unbundling requirements have been met.

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 must be separately recognized when the following conditions are met:

- 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 at the reference date. 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, normally corresponding to the BID price at the closing date. In the absence of an active market, prices provided by information providers such as Bloomberg or Reuters are used, or valuation models 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". The interest income and dividends are recognised under the following income statement items: "interest income and similar income" and "dividends and similar revenues" respectively.

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, financial assets held for trading, financial assets held to maturity or assets measured 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.

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.

In the cases permitted by the accounting principles, reclassifications are only permitted for the category Financial assets held to maturity. In addition, debt securities can be reclassified to both the Financial assets held to maturity and the Receivables categories, when there is the ability and intent to hold the instrument for the foreseeable future and when the conditions for recognition provided under IAS 39 have been met. The transfer value is represented by the fair value at the time of the reclassification. The fair value of the instrument at the reclassification date becomes the new cost or amortised cost depending on the situation.

Valuation criteria

Following initial recognition, available-for-sale financial assets continue to be recorded at their fair value with the change in value resulting from application of the original effective interest rate (known as “amortised cost”) recognised in the income statement, 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.

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

Equity securities and the units in collective investment undertakings for which there is no price available from the active market and for which the fair value may not be measured reliably and derivatives that are related to them and that must be paid by delivery of the aforesaid instrument, are kept at cost and written down in the event of impairment.

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 in the income statement. In the case of impairment, and when being divested, the accumulated loss recognised in the equity reserve is removed from the aforesaid reserve and charged to the income statement.

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

If there is a difference between the fair value and the carrying amount, this does not necessarily mean that impairment can be recognised on the accounts. 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' carrying amount is not fully recoverable.

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 carrying amount greater than what the amortized cost would have been had the loss not been recognized.

Interest, calculated using the original effective interest rate, which considers the amortisation/depreciation, the transaction costs and the differences between the cost and the redemption value are recognised on the income statement.

Derecognition criteria

The financial assets available for sale are derecognized in the financial statements when the contractual rights to the cash flows resulting from the assets expire or if the sale leads to the substantial transfer of all risks and rewards associated with the assets themselves.

On the other hand, if 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 to third parties.

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 even 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.

3. Financial assets held to maturity

Classification criteria

This category includes debt securities with a fixed term and fixed or calculable payments for which the Bank has the intent and capacity to hold them until maturity.

If, during a financial year, prior to maturity, a non-insignificant amount of the instruments classified in this category is sold or reclassified, the remaining financial assets classified as held to maturity are reclassified as financial assets available for sale and the portfolio in question may not be used for the following two financial periods (known as the "tainting rule") unless the sale or reclassification:

- are so close to maturity or to the instrument option exercise date that the fluctuations of market interest rates would not have a significant effect on the fair value of the financial asset;
- occurred after payment of substantially all the original capital of the financial asset through ordinary programmed or prepaid payments; or
- can be attributed to an isolated event that cannot be controlled, that is non recurring, and that therefore cannot not be reasonably predicted.

The financial asset is initially recognized on the settlement date. At the date 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.

Valuation criteria

After the initial recognition, the financial assets held to maturity are valued at the amortized cost, using the original effective interest rate method. Gains or losses in reference to the fair value changes 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 carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate recognised at the date of initial recording). 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. The write-back may not result in a carrying amount of the instrument that exceeds what would have been the amortised cost of the instrument if the impairment had not been recognised.

Derecognition criteria

The aforesaid financial assets are derecognized from the financial statements 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.

Similarly, whenever a significant portion of the risks and rewards relevant to the financial assets sold 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.

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 from the Receivables category to other categories of financial assets provided 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.

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 original 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 or in any case where the effect resulting from application of the original effective interest rate method is insignificant, independently from the duration. 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 watch-list, restructured or bad debt status, in accordance with prevailing regulatory provisions.

These impaired loans are subject to an analytical measurement process or a process to calculate expected losses by similar categories and analytical allocation to each position. The amount of write-down of each receivable is equal to the difference between the carrying amount at the time of measurement - amortized cost - and the present value of the expected future cash flows, calculated applying the original effective interest rate. The write-down is recorded in the income statement.

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 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 does not pay the interest.

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 regulatory provisions. 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 no. 262.

Performing 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 macro hedged.

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

Any financial asset defined as such at the time of purchase can be classified in the financial instruments measured at fair value with a contra entry in the income statement, in accordance with the international accounting standards. If the financial instruments are classified in this category, they cannot be reclassified in any other financial asset category.

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.

At the time of initial recognition, the financial assets are recorded at fair value, without considering the costs or proceeds of the transaction that is directly attributable to the instrument itself.

Banca Popolare dell'Alto Adige uses the aforesaid category to account for the hedging transactions of its debt securities.

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 entirely charged to the income statement.

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

Derecognition criteria

The financial assets are derecognized when the contractual rights to the cash flows resulting from the assets expire or if the sale leads to the substantial transfer of all risks and rewards associated with the assets themselves.

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 if the ownership is transferred.

7. Equity investments

Classification criteria

This item includes the interests held in subsidiaries held on an exclusive basis, associated companies or subject to joint control that are recorded on the basis of the equity method.

Entities in which the power to determine the financial and management policies is held are considered to be subsidiaries. This occurs when more than half of the voting rights at shareholders' meetings 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.

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.

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 management and financial decisions of the associated company.

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 cost, including any ancillary costs that can be directly charged.

The carrying amount is subsequently increased or reduced to enter the portion of profits or losses, as a contra entry to the income statement item "210 Profit (loss) on equity investments". The dividend income reduces the carrying amount of the shareholding.

Please refer to the last validly approved financial statements of the subsidiary.

Valuation criteria

If valuation adjustments have to be made due to changes in the shareholders' equity of the investee company that have not been recorded in the income statement, the amount of those changes owned by the Bank is recorded directly in the equity reserve items.

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 carrying amount, 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.

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.

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.

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 carrying amount are charged to the income statement.

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, 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.

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 charged to the income statement in the financial year in which they are incurred.

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.

Property is depreciated at a rate considered to be reasonable to represent the depreciation of the assets over time following their use, considering the residual useful life and the extraordinary maintenance expenses that increase the depreciable amount.

The following are not depreciated:

- land, since 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 based on the independent expert opinions.
- assets that form part of 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, if any evidence exists that demonstrates an asset may have suffered an impairment loss, a comparison is made between its carrying amount 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 made.

Derecognition criteria

A tangible asset is derecognized in the balance sheet upon disposal thereof or when the asset is permanently withdrawn from use. Any future economic benefits expected from its divestiture are accounted for.

9. Intangible assets

Classification criteria

Intangible assets are non-monetary assets, identifiable and without physical substance, originating in legal or contractual rights, and 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 if 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;
- costs incurred internally for the development of software projects are intangible assets and are recorded under the assets only if all the following conditions are fulfilled: i) the cost attributable to the development can be reliably calculated, ii) there is the intention, availability of financial resources and technical capacity to make the asset available for use or sale, iii) it can be proven that the asset can produce future economic benefits. Capitalised software development costs only include the costs incurred that can be directly attributed to the development process. Capitalised software development costs are systematically amortised over the estimated life of the relative product/service so as to reflect the way that the future economic benefits deriving from the asset are expected to be consumed by the entity from the beginning of production and throughout the estimated life of the product;
- intangible assets related to the customers represented by the valuation, when aggregating the asset management relations of the insurance portfolio and the core deposits. These assets, all with defined lives, are originally valued by time-discounting them, using a rate that represents the time value of money and the specific risks of the asset, the flows representing the income margins over a period that expresses the residual contractual or estimated lifetime of the relations when the aggregations are being made. They are amortized on a straight-line basis over eight years;
- goodwill, which represents the positive difference between the acquisition cost and the fair value of the assets and liabilities owned by an acquired business.

Goodwill may be recorded when the positive difference between the amount transferred and the fair value of the equity components acquired represents the future capacity of the equity investment to generate profit.

If this difference proves negative (badwill), or if the goodwill offers no justification of the capacity to generate future profit from the business acquired, the difference is charged to the income statement.

Valuation criteria

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

If any evidence demonstrating that an asset with a defined useful life 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 carrying amount and the recoverable value. The recoverable value is represented by the greater of the fair value net of selling costs and the recovery value.

Intangible assets with indefinite useful lives are not subject to systematic amortization, but to periodic impairment tests.

Every year - and any time evidence of an impairment loss exists - a test is performed to verify the suitability of the goodwill value. The Cash Generating Unit (“CGU”) to which the goodwill must be allocated is identified for this purpose. The CGU corresponds to the operating divisions identified in the management report for Banca Popolare dell'Alto Adige. The amount of any impairment is calculated based on the difference between the recognition value of the goodwill and the realization value, if lower. This recovery value is equal to the higher value between the fair value of the Cash Generating Unit, 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 and liabilities and groups of assets and liabilities held for disposal are classified under these items. Classification under this item is possible whenever the disposal is deemed highly probable.

In this case these assets and liabilities are valued as the lesser value between the carrying amount and their fair value net of selling or divestiture 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

Income taxes for the period, calculated in compliance with tax regulations in force, are accounted for as cost based on the accrual criteria, consistent with the recognition in the financial statements of the costs and revenues which generated them.

They therefore represent the balance of the current and deferred taxes related to the income for the year.

If the prepaid and deferred taxes regard transactions that involved the shareholders’ equity on a direct basis (such as adjustments due to first time application of the IAS/IFRS or measurement of the financial instruments available-for-sale), they must be recorded as a contra entry to the shareholders’ equity, concerning the specific reserves where provided for (usually the valuation reserves).

Latent taxation of the “taxable if used” deferred tax equity items is recorded on the financial statements as a reduction of the shareholders’ equity. Deferred taxes related to revaluations due to conversion to the Euro directly charged to the specific reserve pursuant to art. 21, Italian Legislative Decree 213/98 in deferred taxation, is recorded on the financial statements as a reduction of the reserve itself.

The latent taxation referring to the “taxable only if distributed” deferred tax equity items is not recorded on the financial statements since the amount of the available reserves already subject to taxation means that it can be considered that no taxable transactions will be made.

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. in liquidation 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 also include the tax credits for which the Group companies have 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 carrying amount 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

Funds for pensions and similar obligations

The pension funds were set up to implement company agreements and can be classified as defined benefit plans. The liabilities related to these plans and the related work-related social security costs are calculated in accordance with actuarial hypotheses applying the “projected unit credit” method, which involves projecting future payments on the basis of historical statistical analyses and the demographic curve and the financial time-discounting of these flows on the basis of a market interest rate. The contributions paid each year are considered as separate units, recorded and measured separately in order to calculate the final obligation. The rate used for the time-discounting is calculated as the average of the market rates related to the measurement dates. The present value of the bond at the date of the financial statements is also adjusted by the fair value of any assets serving the plan.

As more fully explained above, starting from the current year, the actuarial losses and gains are charged to a specific equity reserve.

Other provisions

The other provisions for risks and charges include the provisions for legal obligations or related to employee relationships or disputes, including tax disputes, resulting from past events for which it is probable that payments will have to be made to fulfil said obligations, as long as a reliable estimate of said amounts can be made.

Therefore, a provision will be recorded if and only if:

- a 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 stock broking 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.

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.

Each fund is used only to manage those outlays for it was originally established.

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

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 reverse repurchase agreements and security loans involving the receipt of pecuniary guarantees.

Such financial liabilities are 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 original 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 and where any charges are fully charged to the income statement.

Derecognition criteria

The financial liabilities are derecognised from the balance sheet at maturity or when they are extinguished or repurchased. 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 carrying amount of the liability and the amount paid to buy it are charged to income statement.

Any re-placement of own liabilities on the market subsequent to their repurchase is considered like a new issue with recording or the liability on the basis of the new placement price, without any effect on the income statement.

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 any 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 are accounted for directly and fully 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 in the income statement during the initial recognition in the following cases 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.

Where there are financial liabilities represented by shares issued, they can also be cancelled where there is repurchasing: the difference between the carrying amount 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.

Please refer to paragraph “17 - Other information, method used to calculate the fair value of financial instruments” for further information on the framework of the liabilities in fair value option, the methods used to calculate the fair value and the quantification of own creditworthiness.

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 items are converted at the exchange rate on the closing date;
- the non-monetary items measured at historical cost are converted at the exchange rate in effect on the date of the transaction;
- the non-monetary items measured 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. Similarly, 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 disclosures

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 nominal value. For foreign currencies, the nominal value is converted into Euros at the exchange rate on the date of the financial statements.

Other assets

Assets than cannot be imputed to other balance-sheet asset items are recorded here. The item includes the following:

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”. 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. The aforesaid costs classified under Other assets as provided in the instructions by the Bank of Italy are depreciated for a period not greater than the duration of the lease contract;

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 are considered to be a “post employment benefit” classified as follows:

- “defined contribution plan” for the portions of staff severance indemnities maturing from 1 January 2007 (date of entry into effect of the supplementary pension reform pursuant to Italian Legislative Decree no. 252 of 5 December 2005) both where the customer chooses a supplementary pension plan and in the cases where it is forms part of the Treasury fund with INPS. The amount accounted for these portions as personnel expenses is calculated on the basis of the contributions due without application of the actuarial calculation methods;
- “defined benefit plans” and therefore recorded on the basis of the actuarial value calculated using the “projected unit credit” method for the amount of the provisions for staff termination indemnities matured up to 31 December 2006.

The amounts relating to the “defined benefit plans” are recorded on the basis of their actuarial value calculated using the “projected unit credit” method, without application of the pro-rata of the service provided since it is a current service cost of the employee severance indemnity and almost entirely matured, and its revaluation, for the upcoming years, is not considered to provide significant benefits for the employees.

For time-discounting purposes, the rate used is determined with reference to the market yield, considering the residual average duration of the liabilities, weighted in accordance with the percentage of the amount paid and paid in advance, for each maturity, with respect to the total to pay and advance until the entire obligation has been paid off. The service costs for the plan are accounted for as staff costs, while the actuarial gains/losses are charged to a specific equity reserve.

Provisions for guarantees and commitments

The provisions on an analytical and collective basis, regarding the estimate of any payments related to the credit risk regarding guarantees and commitments, calculated by applying the same criteria previously presented with reference to the receivables, are placed under Other liabilities, as provided under the Instructions of the Bank of Italy.

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.

Any direct 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.

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.

b) The recognition of income and dividends

Revenue is recognised when it is obtained, or in the case of the sale of goods or products, or in any event when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably when they are given. More specifically:

- interest amounts are recognised on an accrual basis according to the contractual interest rate or actual interest rate if the amortised cost methods is applied; The interest income (interest expense) item also includes the positive (negative) differentials or margins, matured up to the reference date of the financial statements with respect to financial derivative contracts:
  a) classified on the balance sheet in the trading book, but related to the financial assets and/or liabilities measured at fair value (“fair value option”);
  b) related to the assets and liabilities classified in the trading book and which provide for payment of differentials or margins with more than one maturity date;

- the late payment interest, if envisaged by contract, is recorded in the income statement only when actually collected;
- dividends are recognised to the income statement during the year in which their distribution has been decided on;
- commissions for service revenues are recorded, on the basis of contractual arrangements, in the period in which the services were provided. The commissions considered in the amortized cost in order to calculate the effective interest rate are recorded under interest;
- revenues or costs resulting from the sale of financial instruments, calculated from the difference between the amount paid or received from the transaction and the fair value of the instrument, are charged to the income statement when recording the transaction if the fair value can be calculated with reference to official prices available on active markets, or by assets and liabilities measured on the basis of measurement techniques that use inputs other than quoted market prices included within level 1 that are observable for the asset or liability (level 1 and level 2 of the fair value hierarchy). If the reference parameters used for the measurement are unobservable on the market or the instruments have reduced liquidity (level 3), the financial instrument is recorded at an amount equal to the transaction price; the difference compared to the fair value is recorded on the income statement for the duration of the transaction;
- the profits and losses resulting from trading financial instruments are recognised on the income statement when the sale is concluded, on the basis of the difference between the amount paid or received and the carrying amount of the instrument itself;
- revenues received from the sale of non-financial assets are recorded when the sale has been concluded, unless most of the risks and benefits related to the asset have been maintained.

Costs are recorded on the income statement in the periods in which the related revenues were accounted for. If 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 rational, systematic allocation method.

Costs that cannot be associated with the income are recognised immediately on the income statement.

c) 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; however this is admissible in accordance with paragraph 50B in rare cases only.

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 carrying amount 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.

d) 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 account 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§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.

e) 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 mark-to-model method must therefore be adopted. 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 certain types of instruments (for example 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 mark-to-model method must therefore be adopted. 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 electronic OTC trading circuits (e.g. 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 price) - 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. Model Valuation: 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.

More specifically:

- 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.

The factors considered to be significant when setting the trading price for a hypothetical transaction on the secondary market must be considered for one’s own bond issues.

More specifically, in determining the fair value of one’s own issues subscribed by the retail customers, changes in one’s own creditworthiness that occurred after the issue date are not taken into consideration.

In calculating the fair value of the bond issues within the scope of the EMTN programme, subscribed to by institutional clients, in which transactions subsequent to the issue are affected by the change in one’s own credit spread, the measurement method is based on a cash flow time-discounting model, where the curve used for the time-discounting is equal to the risk free market interest rate, increased by the curve of one’s own creditworthiness recorded on the market the instruments are traded on.

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. More specifically:

- 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 the medium-long term performing loans, the fair value is calculated 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 original 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: carrying amount, 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 13.0 million of debt securities held for trading corresponding to a carrying amount 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 carrying amount 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.

During the course of the year 2012 no further reclassifications were carried out.

An illustration of the residual carrying amount as at 31 December 2012 is shown below.

(thousands of Euro)

Type of financial instrument	Source Portfolio	Destination Portfolio	Carrying amount as at 31/12/2012	Fair value as at 31/12/2012	Income components in the absence of transfers (before tax)		Income components entered in the year (before tax)	
					Evaluation	Other	Evaluation	Other
Debt securities	HFT	AFS	9,677	9,677	1,190	1,103	2,421	(129)
UCITS units	HFT	AFS	31,877	31,877	1,777	(15)	1,649	113
Debt securities	HFT	HTM	1,080	694	34	55	-	18
Debt securities	HFT	LRO	33,377	33,377	1,734	1,775	-	2,222

The carrying amount of the debt securities as at 31 December 2012 amounts to 34.5 million (63.5 million as at 31 December 2011) and their fair value amounts to 34.2 million (61.6 million as at 31 December 2011).

A.3.1.2. Reclassified financial assets: effects on comprehensive income before transfer

No further reclassifications of financial assets were made in 2012.

A.3.1.3. The transfer of financial assets held for trading

The 2008 crisis was expressly identifies by the IASB as an unusual event. Banca Popolare dell'Alto Adige therefore reclassified certain securities, that were mostly non-listed bonds on active markets that had originally been classified as trading assets but that had lost the required marketability conditions to maintain them in the "held for trading" category. As noted above, these assets were classified under the receivable categories, as available-for-sale financial assets. Certain financial assets that had been classified as "held for trading" were reclassified under the "Receivables" category in 2001.

A.3.1.4. Effective interest rate and excepted cash flows from reclassified assets

The average effective interest rate referring to the assets that had been reclassified in previous years as a whole amounted to 4.9%.

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)	31.12.2012			31.12.2011		
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	17,975	75,520	10,689	40,091	135,489	18,160
2. Financial assets carried at fair value	-	-	-	-	-	-
3. Available-for-sale financial assets	237,774	117,145	15,328	52,024	110,249	15,917
4. Hedges	-	-	-	-	-	-
Total	**255,749**	**192,665**	**26,017**	**92,115**	**245,738**	**34,077**
1. Financial liabilities held for trading	372	12,104	-	-	15,439	-
2. Financial liabilities carried at fair value	-	449,769	-	-	635,799	-
3. Hedges	-	-	-	-	-	-
Total	**372**	**461,873**	**-**	**-**	**651,238**	**-**

Financial assets

The financial assets valued on the basis of prices drawn from active markets (Level 1) or determined based on parameters observable in the market (Level 2) represent 94.5% of the carrying amount 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 5.5%, and are represented by a limited number of illiquid securities, 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.

24.4 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	**18,160**	**-**	**15,917**	**-**
2. Increases	**7,640**	**-**	**6,705**	**-**
2.1 Acquisitions	936	-	1,670	-
2.2 Profits allocated as:	477	-	780	-
2.2.1 Income Statement	477	-	-	-
- of which capital gains	477	-	-	-
2.2.2 Shareholders' Equity	X	X	780	-
2.3 Transfers from other levels	5,313	-	3,765	-
2.4 Other increases	914	-	490	-
3. Decreases	**15,111**	**-**	**7,294**	**-**
3.1 Sales	14,845	-	4,707	-
3.2 Reimbursements	87	-	-	-
3.3 Losses allocated to:	-	-	2,545	-
3.3.1 Income statement	-	-	2,535	-
- of which capital losses	-	-	1,838	-
3.3.2 Shareholders' equity	X	X	10	-
3.4 Transfers to other levels	-	-	-	-
3.5 Other decreases	179	-	42	-
4 Closing balance	**10,689**	**-**	**15,328**	**-**

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 IFRS 7, paragraph 28, evidence of the amount of the "Day One Profit or Loss" recognized in the income statement as at 31 December 2012, 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

Section 1 Cash and cash equivalents – Item 10

1.1 Cash and cash equivalents: breakdown

(thousands of Euro)		31.12.2012	31.12.2011
a)	Cash on Hand	49,607	35,768
b)	Demand deposits at Central Banks	-	-
Total		**49,607**	**35,768**

The item is represented by the cash on hand.

Section 2 Financial assets held for trading – Item 20

2.1 Financial assets held for trading: breakdown by type

(thousands of Euro)	31.12.2012			31.12.2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Cash assets						
1. Debt securities	17,710	51,054	10,689	40,091	108,110	18,160
1.1 Structured securities	-	3,996	5,288	-	323	15,747
1.2 Other debt securities	17,710	47,058	5,401	40,091	107,787	2,413
2. Equities	-	-	-	-	-	-
3. UCITS units	-	35	-	-	35	-
4. Loans	-	-	-	-	-	-
4.1 Repurchase agreement	-	-	-	-	-	-
4.2 Others	-	-	-	-	-	-
Total A	**17,710**	**51,089**	**10,689**	**40,091**	**108,145**	**18,160**
B. Derivatives						
1. Financial derivatives	265	24,431	-	-	27,344	-
1.1 held for trading	265	8,603	-	-	12,466	-
1.2 related to the fair value option	-	15,828	-	-	14,878	-
1.3 Others	-	-	-	-	-	-
2. Credit derivatives	-	-	-	-	-	-
2.1 held for trading	-	-	-	-	-	-
2.2 related to the fair value option	-	-	-	-	-	-
2.3 others	-	-	-	-	-	-
Total B	**265**	**24,431**	**-**	**-**	**27,344**	**-**
Total (A+B)	**17,975**	**75,520**	**10,689**	**40,091**	**135,489**	**18,160**

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” of level 3 includes 10.5 million of bonds issued entirely by banks and financial institutions.

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

(thousands of Euro)	31.12.2012	31.12.2011
A. CASH ASSETS		
1. Debt securities	**79,453**	**166,361**
a) Governments and central banks	24,234	46,611
b) Other public entities	-	-
c) Banks	25,731	83,401
d) Other issuers	29,488	36,349
2. Equities	**-**	**-**
a) Banks	-	-
b) Other issuers:	-	-
- insurance companies	-	-
- financial companies	-	-
-non-financial companies	-	-
- other	-	-
3. UCITS units	**35**	**35**
4 Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other parties	-	-
Total A	**79,488**	**166,396**
B. DERIVATIVES		
a) Banks		
-fair value	16,683	15,601
b) Customers		
-fair value	8,013	11,743
Total B	**24,696**	**27,344**
Total (A+B)	**104,184**	**193,740**

2.3 Financial cash assets held for trading: annual changes

(thousands of Euro)	Debt securities	Equities	UCITS units	Loans	Total
A. Opening balance	**166,361**	**-**	**35**	**-**	**166,396**
B. Increases	**259,198**	**-**	**-**	**-**	**259,198**
B1. Acquisitions	249,768	-	-	-	249,768
B2. Positive changes in fair value	1,245	-	-	-	1,245
B3. Other changes	8,185	-	-	-	8,185
C. Decreases	**346,106**	**-**	**-**	**-**	**346,106**
C1. Sales	295,312	-	-	-	295,312
C2. Reimbursements	45,783	-	-	-	45,783
C3. Negative changes in fair value	39	-	-	-	39
C4. Transfers to other portfolios	-	-	-	-	-
C5. Other changes	4,972	-	-	-	4,972
D. Closing balance	**79,453**	**-**	**35**	**-**	**79,488**

Section 3 Financial assets carried at fair value – Item 30

3.1 Financial assets carried at fair value: breakdown 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.

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

4.1 Available-for-sale financial assets: breakdown by type

(thousands of Euro)	31.12.2012			31.12.2011		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
1. Debt securities	237,767	62,392	4,764	52,019	51,472	5,184
1.1 Structured securities	-	-	999	-	-	2,755
1.2 Other debt securities	237,767	62,392	3,765	52,019	51,472	2,429
2. Equities	7	5,724	10,564	5	-	10,733
2.1 Carried at fair value	7	5,724	-	5	-	-
2.2 Carried at cost	-	-	10,564	-	-	10,733
3. UCITS units	-	49,029	-	-	58,777	-
4. Loans	-	-	-	-	-	-
Total	**237,774**	**117,145**	**15,328**	**52,024**	**110,249**	**15,917**

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 equity investments representing the voting rights of less than 20% of the share capital of companies that cannot be classified as controlling interest, associated or joint control and do not represent a strategic investment for the Bank.

4.2 Available-for-sale financial assets: breakdown by debtor/issuer

(thousands of Euro)	**31.12.2012**	**31.12.2011**
1. Debt securities	**304,924**	**108,675**
a) Governments and central banks	237,767	52,019
b) Other public entities	-	-
c) Banks	65,656	52,568
d) Other issuers	1,501	4,088
2. Equities	**16,294**	**10,738**
a) Banks	8,402	2,677
b) Other issuers:	7,892	8,061
- insurance companies	-	-
- financial companies	40	40
-non-financial companies	7,852	8,021
- other	-	-
3. UCITS units	**49,029**	**58,777**
4 Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**370,247**	**178,190**

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	**108,675**	**10,738**	**58,777**	**-**	**178,190**
B. Increases	**576,670**	**7,395**	**5,685**	**-**	**589,750**
B1. Acquisitions	562,633	7,394	2,177	-	572,204
B2. Positive changes in fair value	6,194	1	2,677	-	8,872
B3. Write-backs	-	-	-	-	-
- Allocated to the income statement	-	X	-	-	-
- Allocated to shareholders' equity	-	-	-	-	-
B4. Transfers from other portfolios	-	-	-	-	-
B5. Other changes	7,843	-	831	-	8,674
C. Decreases	**380,422**	**1,839**	**15,432**	**-**	**397,693**
C1. Sales	205,199	1	11	-	205,211
C2. Reimbursements	170,695	-	14,023	-	184,718
C3. Negative changes in fair value	355	-	833	-	1,188
C4. Write-downs for impairment	-	1,838	-	-	1,838
- Allocated to the income statement	-	1,838	-	-	1,838
- Allocated to shareholders' equity	-	-	-	-	-
C5. Transfers to other portfolios	-	-	-	-	-
C6. Other changes	4,173	-	565	-	4,738
D. Closing balance	**304,923**	**16,294**	**49,030**	**-**	**370,247**

Results of impairment test on financial assets available-for-sale

With reference to the values as at 31 December 2012, 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 carrying amount 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.

The continued uncertainty surrounding financial markets and the intensification of the financial crisis means that the adequacy of the impairment indicators has to be monitored continuously. In order to draft these financial statements, an attentive evaluation of the financial instruments classified as available for sale (AFS) was made in order to determine whether there was any impairment.

The impairment indicator was identified as the specific issue rating for the debt securities. All the debt securities are from issuers with investment grade ratings and are all listed instruments. Overall, the exposure in terms of debt securities as at 31 December 2012 amounted to 304.9 million. There were no impairment indicators for these instruments in particular. In one case only, a debt security of a German bank had a Caa1 rating, down from its Ba3 rating of 31 December 2011. No elements were found to warrant the finding of impairment in this case, also considering the systemic support by the German Federal authorities.

With reference to impairment of UCITS securities and shares, the evaluation policy set significance and duration parameter thresholds, identified as a significant reduction in the fair value of more than 50% compared to its carrying amount if this difference is built up over one financial year only, or a reduction in the fair value of between 20% and 50% over a three-year time period, normalised for volatility. Overall, the exposure in terms of debt securities as at 31 December 2012 amounted to 49.0 million. No elements were found to warrant the finding of impairment in this case either.

Equity instruments are mainly made up of unlisted equity investments for which no recent transactions are available. Considering the objective complexity of valuing them - apart from listed equity investments where it is possible to identify the fair value - the best indication of fair value of these investments is usually the purchase cost. In this context where the fair value is calculated on a prudent basis, the check for impairment is based on the examination of the information on the financial statements, performance indicators and other company information available that can provide evidence of any possible impairment. Overall, the exposure in terms of debt securities as at 31 December 2012 amounted to 16.3 million. With reference to equity interest in a property group, the significant impairment of this sector meant that there was a progressive drop in profitability, with resulting negative operating performance. Therefore, when drafting the half-year report, the carrying amount was aligned with the corresponding shareholders' equity amount that was considered to be the best evidence of the fair value, in the absence of comparable transactions. An impairment of 1.8 million was therefore recorded on the income statement.

Section 5 Financial assets held to maturity – Item 50

5.1 Financial assets held to maturity: breakdown by type

(thousands of Euro)	31.12.2012				31.12.2011			
	Carrying amount	Fair value			Carrying amount	*Fair value*		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt securities	1,080	-	695	-	3,693	-	3,235	-
- structured	-	-	-	-	-	-	-	-
- other	1,080	-	695	-	3,693	-	3,235	-
2. Loans	-	-	-	-	-	-	-	-
Total	**1,080**	**-**	**695**	**-**	**3,693**	**-**	**3,235**	**-**

The item “Debt securities – other securities” consists of a corporate bond issue and of a senior class debt security relative to a securitization transaction.

5.2 Financial assets held to maturity: breakdown by debtor/issuer

(thousands of Euro)	31.12.2012	31.12.2011
1. Debt securities	**1,080**	**3,693**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other issuers	1,080	3,693
2. Loans	**-**	**-**
a) Governments and central banks	-	-
b) Other public entities	-	-
c) Banks	-	-
d) Other entities	-	-
Total	**1,080**	**3,693**

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**	**3,693**	**-**	**3,693**
B. **Increases**	**7**	**-**	**7**
B1. Acquisitions	-	-	-
B2. Write-backs	-	-	-
B3. Transfers from other portfolios	-	-	-
B4. Other changes	7	-	7
C. **Decreases**	**2,620**	**-**	**2,620**
C1. Sales	-	-	-
C2. Reimbursements	2,605	-	2,605
C3. Value adjustments	-	-	-
C4. Transfers to other portfolios	-	-	-
C5. Other changes	15	-	15
D. **Closing balance**	**1,080**	**-**	**1,080**

Results of impairment tests for financial assets held to maturity

With reference to the values as at 31 December 2012, 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.

This category comprises a single financial instrument, referable to a senior tranche of a securitisation transaction for residential properties, where the carrying amount was 1.1 million as at 31 December 2012. Since it is a security that is rated by the biggest ratings agencies: Standard & Poor’s, Moody’s and Fitch, the impairment indicator was identified as the impairment of the specific issue rating. In the specific case, the specific ratings assigned by the ratings agencies were: B (S&P), Ba3 (Moody’s) e BB (Fitch). The issue had a weighted average life of 5.2 years at the reference date. No elements were found to find impairment in the security, considering also that the pool factor and loan to value values were still positive.

Section 6 Due from Banks - Item 60

6.1 Due from banks: breakdown by type

(thousands of Euro)	31.12.2012	31.12.2011
A. Due from Central Banks	**31,941**	**41,748**
1. Fixed-term deposits	-	-
2. Compulsory reserves	31,941	41,748
3. Repurchase agreement	-	-
4. Other	-	-
B. Due from banks	**124,571**	**130,423**
1. Current accounts and demand deposits	12,758	4,807
2. Fixed-term deposits	-	1,000
3. Other loans	3,220	7,220
3.1 Repurchase agreements	-	-
3.2 Financial leasing	-	-
3.3 Other	3,220	7,220
4. Debt securities	108,593	117,396
4.1 Structured securities	-	-
4.2 Other debt securities	108,593	117,396
Total (carrying amount)	**156,512**	**172,171**
Total (fair value)	***156,512***	***172,171***

This category includes unlisted financial assets on an active market (Level 2 and Level 3) held at banks (current accounts, guarantee deposits, debt securities etc.) classified in the “loans and receivables” portfolio. Operating receivables related to the provision of financial services and assets sold that do not meet the conditions of IAS 39 to be derecognised from the financial statements ("sold and not derecognised") and impaired assets are included in the category.

The change can mainly be attributed to the reduction in the "Debt securities - Other debt securities" compulsory reserve related to the bond issues of Italian banks.

There were no items in the "Due from banks" with subordination clauses or impaired "Due from banks" as at the date of the financial statements, just as for the previous year.

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.

Section 7 Loans to Customers - Item 70

7.1 Loans to customers: breakdown by type

(thousands of Euro)	31.12.2012			31.12.2011		
	Performing	Non-performing		Performing	Non-performing	
		Purchased	Other		Purchased	Other
1. Current accounts	1,291,067	-	173.483	1,332,986	-	108,856
2. Repurchase agreements	34,074	-	-	-	-	-
3. Mortgages	2,789,301	-	143,824	2,702,725	-	127,291
4. Credit cards, personal loans, and loans on salary	69,525	-	410	53,280	-	180
5. Financial leasing	-	-	-	-	-	-
6. Factoring	-	-	-	-	-	-
7. Other loans	497,796	-	17,008	453,035	-	19,285
8. Debt securities	-	-	-	-	-	-
8.1 Structured securities	-	-	-	-	-	-
8.2 Other debt securities	-	-	-	-	-	-
Total (carrying amount)	**4,681,763**	**-**	**334,725**	**4,542,026**	**-**	**255,612**
Total (fair value)	**4,880,657**	**-**	**-**	**4,686,183**	**-**	**-**

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 111.1 million, Euro 58.2 million of which by public entities.

7.2 Loans to customers: breakdown by debtor/issuer

(thousands of Euro)		31.12.2012			31.12.2011		
		Performing	Non-performing		Performing	Non-performing	
			Purchased	Other		Purchased	Other
1.	**Debt securities:**	**-**	**-**	**-**	**-**	**-**	**-**
	a) Governments	-	-	-	-	-	-
	b) Other public entities	-	-	-	-	-	-
	c) Other issuers	-	-	-	-	-	-
	-non-financial companies	-	-	-	-	-	-
	-financial companies	-	-	-	-	-	-
	-insurance companies	-	-	-	-	-	-
	- other	-	-	-	-	-	-
2.	**Loans to:**	**4,681,763**	**-**	**334,725**	**4,542,026**	**-**	**255,612**
	a) Governments	-	-	-	-	-	-
	b) Other public entities	7,470	-	-	10,508	-	-
	c) Other entities	4,674,293	-	334,725	4,531,518	-	255,612
	-non-financial companies	2,832,394	-	287,128	2,845,290	-	213,503
	-financial companies	163,122	-	403	105,332	-	-
	-insurance companies	78	-	-	85	-	-
	- other	1,678,699	-	47,194	1,580,811	-	42,109
Total		**4,681,763**	**-**	**334,725**	**4,542,026**	**-**	**255,612**

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.

Section 8 Hedges – Item 80

8.1 Hedging derivatives: breakdown by hedge-type and by level

As at the balance sheet date, there are no hedges.

8.2 Hedging derivatives: breakdown by portfolios hedged and by hedge-type

As at the balance sheet date, there are no hedges.

Section 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.

Section 10 Equity Investments – Item 100

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

Company Name	Registered office	% investment	% voting rights
A. Wholly-owned subsidiaries			
1. Voba Invest S.r.l. in liquidation	Bolzano	100.00%	100.00%
B. Jointly controlled companies			
C. Companies subject to considerable influence			
1. Casa di Cura Villa S. Anna S.r.l.	Merano	35.00%	35.00%
2. Quartiere Brizzi S.r.l.	Chienes	48.50%	48.50%
3. Acquazzurra S.r.l.	Verona	48.98%	48.98%

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	Carrying amount	Fair value
A. Wholly-owned subsidiaries						
1. Voba Invest S.r.l. in liquidation	3,324	2,100	(1,435)	(1,000)	-	-
B. Jointly controlled companies						
C. Companies subject to considerable influence						
1. Casa di Cura Villa S. Anna (*)	8,462	5,314	319	2,051	571	571
2. Quartiere Brizzi S.r.l. (*)	6,477	503	(21)	29	585	585
3. Acquazzurra S.r.l. (*)	15,688	2,840	(152)	4,357	2,808	2,808
	33,951	**10,757**	**(1,289)**	**5,437**	**3,964**	**3,964**

(*) The figures for the equity investments refer to the year ended 31 December 2011.

The item, amounting to Euro 4.0 million, (Euro 0.9 million as at 31 December 2011) includes the investments in subsidiaries and affiliates.

The balance-sheet information regards the most recently approved financial statements, in conformity with the applicable accounting standards.

Within the scope of rationalising equity interests, the subsidiary Voba Invest S.r.l. in liquidation sold the Company its equity interests in the companies Quartiere Brizzi S.r.l. and Acquazzurra S.r.l. in December.

More specifically, in December 2012, 48.5% of the company Quartiere Brizzi S.r.l. was acquired, with registered office in Chienes and owned by a property entity being developed in the centre of Verona. The amount paid was 0.6 million, including a shareholder loan for an original amount of Euro 1 million in order to strengthen the capital base of the company. The amount paid was fully attributed to the equity investment, which is therefore recorded in the financial statements for a total value of Euro 0.6 million.

In addition, in December 2012, 48.98% of the company Acquazzurra S.r.l. was acquired, with registered office in Verona, and owned by a property entity being developed in the centre of Verona. The amount paid was 2.8 million, including a shareholder loan for an original amount of Euro 350 thousand in order to strengthen the capital base of the company. The amount paid was fully attributed to the equity investment, which is therefore recorded in the financial statements for a total value of Euro 2.8 million.

10.3 Equity investments: annual changes

(thousands of Euro)		31.12.2012	31.12.2011
A.	**Opening balance**	**864**	**516**
B.	**Increases**	**3,448**	**348**
B.1	Acquisitions	3,393	30
B.2	Write-backs	55	318
B.3	Revaluations	-	-
B.4	Other changes	-	-
C.	**Decreases**	**348**	**-**
C.1	Sales	-	-
C.2	Value adjustments	348	-
C.3	Other changes	-	-
D.	**Closing balance**	**3,964**	**864**
E.	**Total revaluations**	**-**	**-**
F.	**Total adjustments**	**1,715**	**1,715**

The item B. 2 “Write-backs” can be attributed to the corresponding change of shareholders’ equity recorded by the subsidiary Casa di Cura Villa S. Anna in the financial year.

Note the impairment of the subsidiary VOBA Invest S.r.l. in liquidation, with reference to the equity investments.

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 carrying amount.

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.

In order to point out any impairment situations, the carrying amount was compared with the recoverable value of the equity investment . 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 amounts as at 31 December 2012 resulted in the need to make a value adjustment to the subsidiary VOBA Invest S.r.l. where the carrying amount was set to zero. The loss on the subsidiary was allocated to the provisions for risks and charges for 1.0 million.

With reference to the Casa di Cura Villa S. Anna investment, company profitability meant that there was no impairment indicators.

Equity investments in the Quartiere Brizzi and Acquazzurra companies, comprising property initiatives acquired in December, were recorded at purchase cost, calculated on the basis of independent expert reports.

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

With reference to the investment held in Quartiere Brizzi, the shareholders made a commitment to pay - upon request by the company if certain determined events occur - a non-interest paying capital contribution for a maximum amount of 300 thousand, with the Company's share amounting to 150 thousand.

As at the balance sheet date, there are no commitments in reference to investments in companies subject to significant control

Section 11 Tangible assets – Item 110

11.1 Tangible assets: breakdown of assets carried at cost

(thousands of Euro)	**31.12.2012**	**31.12.2011**
A. Assets for business use		
1.1 owned	**103,090**	**112,498**
a) land	35,272	34,440
b) buildings	63,807	72,464
c) movable assets	2,990	4,450
d) electronic systems	1,013	442
e) other	8	702
1.2 acquired in financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
c) movable assets	-	-
d) electronic systems	-	-
e) other	-	-
Total A	**103,090**	**112,498**
B. Assets held for investment		
2.1 owned	**-**	**-**
a) land	-	-
b) buildings	-	-
2.2 acquired in financial lease	**-**	**-**
a) land	-	-
b) buildings	-	-
Total B	**-**	**-**
Total A+B	**103,090**	**112,498**

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**	**103,979**	**53,098**	**21,378**	**3,835**	**216,730**
A.1 Net total impairment	-	31,515	48,648	20,936	3,133	104,232
A.2 Net opening balance	**34,440**	**72,464**	**4,450**	**442**	**702**	**112,498**
B. Increases	**832**	**1,751**	**1,201**	**1,050**	**-**	**4,834**
B.1 Acquisitions	-	-	-	-	-	-
B.2 Expenditure for capitalised improvements	-	1,751	1,201	1,050	-	4,002
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	832	-	-	-	-	832
C. Decreases	**-**	**10,408**	**2,661**	**479**	**694**	**14,242**
C.1 Sales	-	-	58	-	-	58
C.2 Depreciation	-	2,845	2,603	479	694	6,621
C.3 Impairment charged to:	-	6,731	-	-	-	6,731
a) shareholders' equity	-	-	-	-	-	-
b) income statement	-	6,731	-	-	-	6,731
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	-	832	-	-	-	832
D. Net closing balance	**35,272**	**63,807**	**2,990**	**1,013**	**8**	**103,090**
D.1 Net total impairment	-	31,927	50,663	21,414	95	104,099
D.2 Gross closing balance	**35,272**	**95,734**	**53,653**	**22,427**	**103**	**207,189**
E. Valuation 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.

Section 12 Intangible assets – Item 120

12.1 Intangible assets: breakdown by type of asset

(thousands of Euro)		31.12.2012		31.12.2011	
		Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A. 1	Goodwill	X	40,392	X	40,392
A. 2	Other intangible assets	3,266	-	4,081	-
A. 2.1	Assets carried at cost:	3,266	-	4,081	-
	a) Internally generated intangible assets	-	-	-	-
	b) Other assets	3,266	-	4,081	-
A. 2.2	Assets carried at fair value:	-	-	-	-
	a) Internally generated intangible assets	-	-	-	-
	b) Other assets	-	-	-	-
Total		**3,266**	**40,392**	**4,081**	**40,392**

As at the balance sheet date, the item "goodwill" corresponds to the goodwill recognised 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 recoverability of the book value.

In accordance with paragraph 66 of IAS 36, any indication that an asset may have suffered an impairment loss must be tested for ("*Impairment*"). If there is positive evidence of impairment, the recoverable value of the asset shall be estimated. If it is not possible to estimate the recoverable value, the recoverable amount of the Cash Generating Unit (CGU) to which the asset belongs must be determined.

With specific reference to goodwill, paragraph 80 specifies that for the purpose of testing any impairment loss, goodwill acquired in a company consolidation must, as at 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 utilised in the previous financial year, making reference to the CGU 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 2013-2017 Business Plan of the Venice Office was used, considering a plan time horizon of 5 years. The assumed growth estimates were determined consistently with the 2013-2015 industrial plan, taking the current uncertain market situation into account;
- the DDM (Dividend Discount Model) method was applied. In addition to the express provision period, a 2% permanent growth rate was considered;

- the discount rate was set equal to the cost of capital of the Bank, equal to 9.6%, considering the 10-year IRS rate increased by a premium for risk as cost of own equity.

The DDM method was developed by taking excess capital into account, thus determining the economic value of the CGU as the sum of the present value of future cash flows generated over the time horizon of explicit planning; the latter includes the present value of the terminal value calculated as the present value of an annual yield in perpetuity of the standardised dividend related to the last year forecast, based on an average pay-out ratio and predefined growth rates.

The cash flows are developed in the plan by taking the distributable dividends to shareholders into account in order to be compatible with adequate levels of capitalisation, which is determined in accordance with both minimum supervisory requirements and capitalisation targets consistent with the expected growth.

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 increasing the discount rate of 200 bps and reducing the estimated future cash flows by 25%.

Based on the aforementioned comparison as at 31 December 2012, 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 than 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**	**-**	**-**	**7,318**	**-**	**47,710**
A.1 Net total impairment	-	-	-	3,237	-	3,237
A.2 Net opening balance	**40,392**	**-**	**-**	**4,081**	**-**	**44,473**
B. Increases	**-**	**-**	**-**	**617**	**-**	**617**
B.1 Acquisitions	-	-	-	617	-	617
B.2 Increases in internal intangible assets	-	-	-	-	-	-
B.3 Write-backs	-	-	-	-	-	-
B.4 Positive changes in fair value	-	-	-	-	-	-
- to shareholders' equity	-	-	-	-	-	-
- to income statement	-	-	-	-	-	-
B.5 Positive exchange differences	-	-	-	-	-	-
B.6 Other changes	-	-	-	-	-	-
C. Decreases	**-**	**-**	**-**	**1,432**	**-**	**1,432**
C.1 Sales	-	-	-	-	-	-
C.2 Value adjustments	-	-	-	1,432	-	1,432
- Depreciation and amortisation	-	-	-	1,432	-	1,432
- Write-downs	-	-	-	-	-	-
+ shareholders’ equity	-	-	-	-	-	-
+ income statement	-	-	-	-	-	-
C.3 Negative changes in fair value	-	-	-	-	-	-
- to shareholders' equity	-	-	-	-	-	-
- to income statement	-	-	-	-	-	-
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**	**-**	**-**	**3,266**	**-**	**43,658**
D.1 Total net value adjustments	-	-	-	4,091	-	4,091
E. Gross closing balance	**40,392**	**-**	**-**	**7,357**	**-**	**47,749**
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.

Section 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)*	**31.12.2012**		**31.12.2011**	
	amount of temporary differences	**tax effect**	**amount of temporary differences**	**tax effect**
- Write-down of loans	59,555	16,378	46,325	12,739
- Provisions for risks and charges	1,552	427	1,685	463
- Administrative expenses	-	-	-	-
- Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	107	29	248	68
- Valuation of AFS securities (*)	2,885	793	9,093	2,501
- Staff severance indemnities	-	-	-	-
- Amortisation of prepaid tax on pre-2008 purchases	-	-	-	-
- Amortisation of prepaid tax on post-2008 purchases	2,948	811	3,639	1,001
- Write-down of buildings (non-deemed cost)	4,371	1,202	-	-
- Other	1,144	315	1,146	315
Total	**72,562**	**19,955**	**62,136**	**17,087**

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES) *(thousands of Euro)*	**31.12.2012**		**31.12.2011**	
	amount of temporary differences	**tax effect**	**amount of temporary differences**	**tax effect**
- Administrative expenses	-	-	-	-
- Revaluation of fixtures and fittings (Italian Law 266, 23/12/05)	96	4	223	11
- Valuation of AFS securities (*)	2,885	139	9,093	438
- Write-down of buildings (non-deemed cost)	4,420	213	-	-
- Other	-	-	-	-
Total	**7,401**	**356**	**9,316**	**449**

13.2 Deferred income tax liabilities: breakdown

IRES (CORPORATE INCOME TAX) *(thousands of Euro)*	**31.12.2012**		**31.12.2011**	
	amount of temporary differences	**tax effect**	**amount of temporary differences**	**tax effect**
- Land depreciation	2,106	579	2,106	579
- Revaluation of property to deemed cost	57,921	15,928	61,589	16,937
- Valuation of AFS securities (*)	2,240	616	766	211
Components directly recorded in the OCI statement	2,382	655	-	-
- Goodwill amortisation	12,224	3,362	10,057	2,766
- Other	-	-	-	-
Total	**76,873**	**21,140**	**74,518**	**20,493**

IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2012		31.12.2011	
(thousands of Euro)	amount of temporary differences	tax effect	amount of temporary differences	tax effect
- Land depreciation	2,106	101	2,106	101
- Revaluation of property to deemed cost	57,921	2,789	61,589	2,970
- Valuation of AFS securities (*)	2,240	108	766	37
- Goodwill amortisation	12,224	589	10,057	485
- Other	-	-	-	-
Total	**74,491**	**3,587**	**74,518**	**3,593**

The valuation of the probability of the recovery of deferred tax assets for the 2012 financial year was conducted based on the 2013-2015 business plan supplemented, for 2013, by the estimate of expected taxable revenue deduced from the budget.

The portion of deferred tax assets for IRES (Corporate Income Tax) referring to deductible temporary differences in the financial years after 2012 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)	31.12.2012	31.12.2011
1. Initial amount			**14,598**	**11,987**
2. Increases	**6,109**	**213**	**6,322**	**3,884**
2.1 Prepaid taxes recognised during the year	6,109	213	6,322	3,884
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) write-backs	-	-	-	-
d) other	6,109	213	6,322	3,884
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**1,535**	**6**	**1,541**	**1,273**
3.1 Prepaid taxes cancelled during the year	1,535	6	1,541	1,273
a) reversals	1,535	6	1,541	1,273
b) write-downs for uncollectible amounts	-	-	-	-
c) change of accounting standards	-	-	-	-
d) other	-	-	-	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
a) Conversion into tax credits under Italian Law no. 214/2011	-	-	-	-
b) Other	-	-	-	-
4. Final amount			**19,379**	**14,598**

As at 31 December 2012, sub-item 2. "Increases: - d) Other" mainly includes the prepaid taxes relative to value adjustments of loans by 3.7 million and to write-down of buildings by 1.4 million.

Sub-item 3.1 "Prepaid taxes cancelled for the year – a) reversals" includes 0.8 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 (with corresponding entry in the income statement)

(thousands of Euro)	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2012	31.12.2011
1. Initial amount			**23,838**	**23,549**
2. Increases	**1,265**	**107**	**1,372**	**753**
2.1 Deferred taxes recognised during the year	1,265	107	1,372	753
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) Other	1,265	107	1,372	753
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**794**	**413**	**1,207**	**464**
3.1 Deferred taxes cancelled during the year	794	413	1,207	464
a) Reversals	794	139	933	464
b) due to change in accounting standards	-	-	-	-
c) Other	-	274	274	-
3.2 Decreases in tax rates	-	-	-	-
3.3 Other decreases	-	-	-	-
4. Final amount			**24,003**	**23,838**

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)	31.12.2012	31.12.2011
1. Initial amount			**2,939**	**841**
2. Increases	**-**	**-**	**-**	**2,098**
2.1 Prepaid taxes recognised during the year	-	-	-	2,098
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) Other	-	-	-	2,098
2.2 New taxes or increases in tax rates	-	-	-	-
2.3 Other increases	-	-	-	-
3. Decreases	**1,707**	**300**	**2,007**	**-**
3.1 Prepaid taxes cancelled during the year	1,707	300	2,007	-
a) Reversals	1,707	300	2,007	-
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			**932**	**2,939**

The change of the prepaid taxes against shareholders' equity refers entirely to the change recognised 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)	31.12.2012	31.12.2011
1. Initial amount			**247**	**119**
2. Increases	**406**	**71**	**477**	**128**
2.1 Deferred taxes recognised during the year	406	71	477	128
a) relating to previous years	-	-	-	-
b) due to change in accounting standards	-	-	-	-
c) Other	406	71	477	128
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			**724**	**247**

13.7 Other information

Breakdown of current tax assets

(thousands of Euro)	31.12.2012	31.12.2011
1. Advance payment of IRES – IRAP – VAT taxes	17,050	11,412
2. Advance payment of stamp duty, withholding tax on interest	5,384	7,524
3. Withholding tax paid	199	141
4. Other current tax assets	2,540	-
Total	**25,173**	**19,077**

Breakdown of current tax liabilities

(thousands of Euro)	31.12.2012	31.12.2011
1. Liabilities for direct taxes	21,181	17,341
2. Indirect taxes	10	6
3. Withholding tax at source to be paid	-	-
4. Other current tax liabilities	-	170
Total	**21,191**	**17,517**

Section 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.

Section 15 Other assets – Item 150

15.1 Other assets: breakdown

(thousands of Euro)	**31.12.2012**	**31.12.2011**
1. Unprocessed transactions with branches	-	-
2. Deposits	134	126
3. Work in progress	37,487	29,367
4. Various outstanding items (items waiting final allocation)	1,474	567
5. Income accrued and due to be received	9,382	8,808
6. Cash items in hand	119	94
7. Accruals and deferrals not reported	531	569
8. Expenditure on third party assets	3,976	4,977
Total	**53,103**	**44,508**

LIABILITIES

Section 1 Due to banks – Item 10

1.1 Due to banks: breakdown by type

(thousands of Euro)		31.12.2012	31.12.2011
1.	**Due to central banks**	**564,070**	**430,371**
2.	**Due to banks**	**207,785**	**239,736**
2.1	Current accounts and demand deposits	36,645	66,945
2.2	Fixed-term deposits	107,209	116,828
2.3	Loans	63,878	55,659
	2.3.1 Reverse repurchase agreements	-	-
	2.3.2 Others	63,878	55,659
2.4	Liabilities for commitments to repurchase own equity investments	-	-
2.5	Other amounts due	53	304
Total		**771,855**	**670,107**
Fair value		**771,855**	**670,107**

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.

Section 2 Due to customers – Item 20

2.1 Due to customers: breakdown by type

(thousands of Euro)	**31.12.2012**	**31.12.2011**
1. Current accounts and demand deposits	2,020,781	1,936,827
2. Fixed-term deposits	477,196	201,417
3. Loans	95,969	40,014
3.1 Reverse repurchase agreements	95,969	40,014
3.2 Others	-	-
4. Liabilities for commitments to repurchase own equity investments	-	-
5. Other amounts due	108,490	136,134
Total	**2,702,436**	**2,314,392**
Fair value	***2,702,436***	***2,314,392***

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.

Section 3 Outstanding securities – Item 30

3.1 Outstanding securities: breakdown by type

(thousands of Euro)	31.12.2012				31.12.2011			
	Book value	Fair value			Book value	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities								
1. Bonds	1,201,965	-	1,201,965	-	1,309,055	-	1,309,055	-
1.1 Structured	-	-	-	-	-	-	-	-
1.2 Other	1,201,965	-	1,201,965	-	1,309,055	-	1,309,055	-
2. Other securities	467	-	-	467	3,759	-	-	3,759
2.1 Structured	-	-	-	-	-	-	-	-
2.2 Others	467	-	-	467	3,759	-	-	3,759
Total	**1,202,432**	**-**	**1,201,965**	**467**	**1,312,814**	**-**	**1,309,055**	**3,759**

The Euro 154.1 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 (Euro 270.5 million as at 31 December 2011). No further placements were made in 2012.

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.

Section 4 Financial liabilities held for trading – Item 40

4.1 Financial liabilities held for trading: breakdown by type

(thousands of Euro)	31.12.2012					31.12.2011				
	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	-	372	12,104	-	-	-		15,439	-	-
1.1 Held for trading	X	372	11,647	-	X	X		14,831	-	X
1.2 Related to the fair value option	X	-	457	-	X	X		608	-	X
1.3 Others	X	-	-	-	X	X		-	-	X
2. Credit derivatives	-	-	-	-	-	-		-	-	-
2.1 Held for trading	X	-	-	-	X	X		-	-	X
2.2 Related to the fair value option	X	-	-	-	X	X		-	-	X
2.3 Others	X	-	-	-	X	X		-	-	X
Total B	**X**	**372**	**12,104**	**-**	**X**	**X**		**15,439**	**-**	**X**
Total (A+B)	**X**	**372**	**12,104**	**-**	**X**	**X**		**15,439**	**-**	**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 trading.

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 trading.

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 trading.

Section 5 Financial Liabilities carried at fair value – Item 50

5.1 Financial liabilities carried at fair value: breakdown by type

(thousands of Euro)	31.12.2012					31.12.2011				
	FCV	FV			FV*	FCV	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks	6,000	-	6,186	-	6,186	6,000	-	6,182	-	6,182
1.1 Structured	-	-	-	-	-	-	-	-	-	X
1.2 Other	6,000	-	6,186	-	-	6,000	-	6,182	-	X
2. Due to customers	-	-	-	-	-	-	-	-	-	-
2.1 Structured	-	-	-	-	-	-	-	-	-	X
2.2 Other	-	-	-	-	-	-	-	-	-	X
3. Debt securities	428,856	-	443,583	-	443,583	613,363	-	629,617	-	629,617
3.1 Structured	45,420	-	47,623	-	-	45,477	-	47,934	-	X
3.2 Other	383,436	-	395,960	-	-	567,886	-	581,683	-	X
Total	**434,856**	**-**	**449,769**	**-**	**449,769**	**619,363**	**-**	**635,799**	**-**	**635,799**

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 amortised 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	**6,182**	**-**	**629,617**	**635,799**
B. Increases	**4**	**-**	**30,690**	**30,694**
B1. Issues	-	-	-	-
B2. Sales	-	-	22,202	22,202
B3. Positive changes in fair value	4	-	3,275	3,279
B4. Other changes	-	-	5,213	5,213
C. Decreases	**-**	**-**	**216,724**	**216,724**
C1. Acquisitions	-	-	35,815	35,815
C2. Reimbursements	-	-	170,790	170,790
C3. Negative changes in fair value	-	-	2,055	2,055
C4. Other changes	-	-	8,064	8,064
D. Closing balance	**6,186**	**-**	**443,583**	**449,769**

Section 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.

Section 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.

Section 8 Tax liabilities – Item 80

This Section was commented on in section 13 of the balance sheet assets.

Section 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.

Section 10 Other liabilities - Item 100

10.1 Other liabilities: breakdown

(thousands of Euro)	**31.12.2012**	**31.12.2011**
1. Adjustments of non-liquid items related to securities portfolios	52,504	22,429
2. Unprocessed transactions with branches	-	-
3. Amounts available to third parties (banks, suppliers etc.)	29,260	14,135
4. Amounts available to customers	14,043	14,272
5. Work in progress (money orders etc.)	10,927	3,787
6. Other items due to various creditors	6,549	5,893
7. Provisions for risks and charges for guarantees and commitments	887	984
8. Accruals and deferrals not reported	1	809
9. Withholding tax and taxes due	7,195	6,862
Total	**121,366**	**69,171**

Section 11 Staff severance indemnities – Item 110

11.1 Staff severance indemnities: annual changes

(thousands of Euro)	**31.12.2012**	**31.12.2011**
A. Opening balance	**17,253**	**17,868**
B. Increases	**3,461**	**675**
B1. Provisions during the year	696	675
B2. Other increases	2,765	-
C. Decreases	**1,166**	**1,290**
C1. Amounts paid	1,166	1,064
C2. Other decreases	-	226
D. Closing balance	**19,548**	**17,253**

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 recognised 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 70-74 and 75-98 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, equal to 3.50%.
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. 83 of IAS 19, the Iboxx Eurozone Corporate A index, in line with the duration of the benefits recognised for the Bank's employees, equal to 2.40% as at 31 December 2012
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 the criteria underlying demographic and actual assumptions described above are essentially in line with those used in the past financial year.

With particular reference to the annual discount rate used for the actuarial valuation, this stood at 4.25% as at 31 December 2011. To this end, there has been a gradual deterioration in the average rating of debt security issuers in recent years, including both public issuers (sovereign debts, public institutions etc.) and companies.

In this regard, a decrease in the securities market with high ratings was noted, which made the parameter used up to 31 December 2011 (Iboxx Eurozone Corporate AA index) less representative.

Therefore, in order to ensure compliance with the provisions of IAS 19 on the identification of the discount rate to be used for the development of actuarial valuations, a basket of bonds denominated in Euro (or in another currency of the plan) corresponding to the simple average return at the date of the actuarial valuation, with an issuer rating of at least A (Standard & Poor's) or Aa1 (Moody's), was considered to be more representative of the actual current trends of the financial market of listed bond securities issued by private companies, constituting the main reference provided under IAS 19 to determine the discount rate, also based upon the assessment done by the expert in charge; more specifically, these rating levels meet the definition of "high quality" required by IAS 19 and therefore also allow for an adequate reference basket capacity, also considering the specific purpose of that rate as established by the standard.

The technical appropriateness of this choice was confirmed by the Italian Order of Actuaries and the Italian National Board of Actuaries through a joint official notice of 21 December 2012 stating the following:

"with reference to the actuarial measurements of 31.12.2012 according to IAS 19 [...], we recommend the use of discount rates for the various maturities, in relation to European bonds of equal or higher quality than those rated as A."

As is known, given the content of IAS 19 and lack of specific requirements by Regulatory Bodies, the identification and selection of the rate concerned represents one of the many possible evaluations and estimates required by the IFRS within the scope of preparing the financial statements.

Sensitivity analysis

In compliance with the provisions of the most recent version of IAS 19, the following additional information is provided:

- sensitivity analysis for each significant actuarial hypothesis at year end, showing the potential effects that would result from changes in the actuarial hypotheses considered reasonably possible as at that date, in absolute terms;
- indication of the contribution for the following year;
- indication of the average financial duration of the bond for the defined benefit plans.

Sensitivity analysis of the main data assessment parameters as at 31.12.2012 (values represent the change in the IAS value of the plan)	Annual discount rate	
Discount rate	*+ 0.25%*	*- 25%*
DBO	**19,141**	**19,971**

For comparison purposes, the following table shows the liability as at 31 December 2012, as calculated by the Iboxx Eurozone Corporate AA index 7-10 in line with the duration of the balance considered as at 31 December 2012.

Defined Benefit Obligation	31.12.2012
DBO	**20,145**

Section 12 Provision For Risks And Charges - Item 120

12.1 Provision for risks and charges: breakdown

(thousands of Euro)	31.12.2012	31.12.2011
1. Company pension funds	-	-
2. Other provisions for risks and charges	2,552	1,685
2.1 legal disputes	2,552	1,685
2.2 personnel charges	-	-
2.3 Others	-	-
Total	**2,552**	**1,685**

12.2 Provision for risks and charges: annual changes

(thousands of Euro)	Pension funds	Other provisions	Total
A. Opening balance	**-**	**1,685**	**1,685**
B. Increases	**-**	**1,521**	**1,521**
B1. Provisions during the year	-	1,521	1,521
B2. Changes due to the elapsing of time	-	-	-
B3. Changes due to discount rate adjustments	-	-	-
B4. Other changes	-	-	-
C. Decreases	**-**	**654**	**654**
C1. Use during the year	-	229	229
C2. Changes due to discount rate adjustments	-	-	-
C3. Other changes	-	425	425
D. Closing balance	**-**	**2,552**	**2,552**

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 Euro 2.6 million, includes the provisions for ongoing disputes including of the respective expenses.

Section 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.

Section 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)	31.12.2012	31.12.2011
- Number of treasury stocks and shares	38,137,350	34,670,319
- Face value	Euro 2.00	Euro 2.00

As at 31 December 2012, Banca Popolare dell'Alto Adige has no treasury shares on hand.

The share capital, as at the balance sheet date, is equal to 76.3 million and comprises 38,137,350 ordinary shares, with a par value of Euro 2.00 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	**3,467,031**	**-**
B.1 New issues	3,467,031	-
- against payment:	-	-
- business combinations	-	-
- bond conversions	-	-
- warrant exercises	-	-
- other	3,467,031	-
- 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	**38,137,350**	**-**
D.1 Treasury shares (+)	-	-
D.2 Number of shares at end of year	38,137,350	-
- fully paid-up	38,137,350	-
- not fully paid-up	-	-

The increase by 3,467,031 shares followed the share capital increase carried out at year-end 2012. Please refer to the report on operations for more information on share capital increase.

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 information

As at the balance sheet date, there is not further disclosures to be reported.

14.4 Profit reserves: other information

(thousands of Euro)	31.12.2012	31.12.2011
1. Legal reserve	106,700	104,800
2. Extraordinary reserve	95,607	89,930
3. Reserve to purchase own shares	4,183	4,183
4. Concentration reserve (Italian Law 218 of 30.07.1990)	10,278	10,278
5. Other reserves	30,592	30,274
Total	**247,360**	**239,465**

Pursuant to art. 2427, paragraph 1, 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 utilisation and distributability options as well as their utilisation in the three previous accounting years.

Type/description *(thousands of Euro)*	Amount	Utilisation options	Available portion	Summary of utilisation in the last three years	
				Loss cover	Other
Capital	76,275	-			
Share premiums	202,459	A, B, C (1)	202,459		
Profit reserves					
- Legal reserve	106,700	B (2)			
- Extraordinary reserve	95,607	A, B, C	95,607		
- Unavailable reserve pursuant to art. 6, Italian Legislative Decree 38/2005	318	B, (*)			
- Other reserves:					
a) Available profit reserves from previous years	4,300	A, B, C	4,300		
b) Specific reserve Italian Law 218/90	10,278	A, B, C (3)	10,278		
c) FTA reserve	30,142	A, B, C	30,142		
d) Merger reserve	15	A, B, C	15		
Valuation reserves					
a) Revaluation reserve	28,388	A, B, C	28,388		
b) IAS revaluation reserve	46,061	A, B	46,061		
c) Negative AFS valuation reserves	(1,964)				
d) Positive AFS valuation reserve	1,516	(*)			
e) Negative actuarial reserve for staff severance indemnities	(2,615)				
Capital instruments					
Retained earnings	21,583				
Total	**619,063**				

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) If it is not charged to share capital, the reserve 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)	31.12.2012	31.12.2011
1) Financial guarantees issued	31,678	32,317
a) Banks	6,105	6,105
b) Customers	25,573	26,212
2) Commercial guarantees issued	326,116	343,777
a) Banks	205	2,936
b) Customers	325,911	340,841
3) Irrevocable commitments to disburse funds	179,371	205,105
a) Banks	16,528	3,557
i) certain to be used	16,528	3,557
ii) not certain to be used	-	-
b) Customers	162,843	201,548
i) certain to be used	8,000	9,746
ii) not certain to be used	154,843	191,802
4) Commitments underlying credit derivatives protection sales	-	-
5) Assets lodged to guarantee minority interest	-	-
6) Other commitments	-	-
Total	**537,165**	**581,199**

The irrevocable commitments to disburse funds to customers in the amount of 192 million, certain to be used, refer mainly to corporate customers.

Assets lodged to guarantee own liabilities and commitments

(thousands of Euro)	31.12.2012	31.12.2011
1. Financial assets held for trading	550,548	265,010
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 95.0 million, whereas the securities uses as deposit and guarantees for other transactions are recorded for 456.0 million.

Furthermore, it is noted that as at the balance sheet date, there are 1,104.1 million in shares not presented in the table being that the relevant securities, relative to transactions of self-securitisation transactions, are not recorded in the balance sheet assets. 1.1 million of the above-mentioned securities are placed as guarantees to cover liabilities for reverse repurchase agreements and 1,103.0 million constitute the guarantee for transactions with the Central Bank in order to support any liquidity needs.

Disclosure on operative leasing

As at the balance sheet date, as in the previous financial year, there are not operative leasing assets or liabilities.

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	**7,802,886**
a) Third party securities held on deposit: related to depositary bank services (excluding assets under management)	1,530,827
1. securities issued by the Bank preparing the financial statements	1,470,410
2. other securities	60,417
b) Third party securities held on deposit (excluding assets under management): other	556,015
1. securities issued by the Bank preparing the financial statements	28,638
2. other securities	527,377
c) Third party securities deposited with third parties	2,071,689
d) Own securities deposited with third parties	3,644,355
4. Other transactions	**-**

PART C INFORMATION ON THE INCOME STATEMENT

Section 1 Interest – Items 10 and 20

1.1 Interest income and similar income: breakdown

Items/Technical form *(thousands of Euro)*	Debt securities	Loans	Other transactions	31.12.2012	31.12.2011
1. Financial assets held for trading	3,236	-	5,581	8,817	13,189
2. Available-for-sale financial assets	7,817	-	-	7,817	2,810
3. Financial assets held to maturity	14	-	-	14	347
4. Due from banks	6,130	256	-	6,386	1,383
5. Loans to customers	-	165,687	-	165,687	160,641
6. Financial assets carried at fair value	-	-	-	-	-
7. Hedges	X	X	-	-	-
8. Other assets	X	X	47	47	39
Total	**17,197**	**165,943**	**5,628**	**188,768**	**178,409**

The interest income on impaired assets totalled 6.7 million, up over 5.1 million as at 31 December 2011.

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 information

1.3.1 Interest income on financial assets in foreign currency

(thousands of Euro)	31.12.2012	31.12.2011
a) on (foreign) currency assets	1,065	1,283

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	31.12.2012	31.12.2011
1. Due to central banks	4,521	X	-	4,521	1,442
2. Due to banks	2,702	X	-	2,702	6,198
3. Due to customers	24,966	X	-	24,966	14,939
4. Outstanding securities	X	25,438	-	25,438	22,580
5. Financial liabilities	-	-	-	-	-
held for trading	-	-	-	-	-
6. Financial liabilities	-	-	-	-	-
carried at fair value	191	12,805	-	12,996	16,395
7. Other liabilities and funds	X	X	-	-	-
8. Hedges	X	X	-	-	-
Total	**32,380**	**38,243**	**-**	**70,623**	**61,554**

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 information

1.6.1 Interest expense on liabilities in currency

(thousands of Euro)	31.12.2012	31.12.2011
a) on assets in foreign currency	737	955

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.

Section 2 Commission – Items 40 and 50

2.1 Commission income: breakdown

Type of service/Amounts *(thousands of Euro)*			31.12.2012	31.12.2011
a)	**Guarantees issued**		**2,898**	**2,457**
b)	**Credit derivatives**		**-**	**-**
c)	**Management, brokerage and consulting services:**		**16,217**	**15,421**
	1.	trading of financial instruments	97	178
	2.	foreign currency transactions	378	437
	3.	portfolio management	-	-
		3.1 individual	-	-
		3.2 collective	-	-
	4.	custody and administration of securities	273	263
	5.	depositary bank	-	-
	6.	placement of securities	6,764	6,327
	7.	order receipt and transmission work	1,465	1,470
	8.	advisory services	-	-
		8.1 on investments	-	-
		8.1 on financial structures	-	-
	9.	distribution of third-party services	7,240	6,746
		9.1 portfolio management	-	-
		9.1.1 individual	-	-
		9.1.2 collective	-	-
		9.2 insurance products	4,309	3,762
		9.3 other products	2,931	2,984
d)	**Collection and payment services**		**5,309**	**5,179**
e)	**Servicing for securitisation transactions**		**-**	**-**
f)	**Factoring transaction services**		**-**	**-**
g)	**Tax collection services**		**-**	**-**
h)	**Managing multilateral trading systems**		**-**	**-**
i)	**Maintaining and managing current accounts**		**36,632**	**38,674**
j)	**Other services**		**12,861**	**11,936**
Total			**73,917**	**73,667**

2.2 Commission income: distribution channels for products and services

Channels/Amounts *(thousands of Euro)*	31.12.2012	31.12.2011
a) At own branches:	**14,004**	**13,073**
1. portfolio management	-	-
2. placement of securities	6,764	6,327
3. third party services and products	7,240	6,746
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)*	31.12.2012	31.12.2011
a) Guarantees received	**2,395**	**16**
b) Credit derivatives	**-**	**-**
c) Management and brokerage services:	**2,173**	**1,769**
1. trading of financial instruments	1,830	1,434
2. foreign currency transactions	73	82
3. portfolio management:	-	-
3.1 own	-	-
3.2 on behalf of third parties	-	-
4. custody and administration of securities	267	253
5. placement of financial instruments	3	-
6. external supply of financial instruments, products and services	-	-
d) Collection and payment services	**401**	**354**
e) Other services	**3,702**	**3,221**
1. transmission duties for cash point card details, POS	2,191	1,984
2. transmission duties for the Bank network	568	527
3. other	943	710
Total	**8,671**	**5,360**

Section 3 Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

Items/Amounts *(thousands of Euro)*		31.12.2012		31.12.2011	
		Dividends	Income from UCITS	Dividends	Income from UCITS
A.	Financial assets held for trading	-	-	-	-
B.	Available-for-sale financial assets	230	-	230	-
C.	Financial assets carried at *fair value*	-	-	-	-
D.	Equity investments	-	X	105	X
Total		**230**	**-**	**335**	**-**

Section 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:	**8,210**	**11,368**	**(8,412)**	**(5,455)**	**5,711**
1.1 Debt securities	1,360	3,615	(39)	(36)	4,900
1.2 Equities	-	-	-	-	-
1.3 UCITS units	-	-	-	-	-
1.4 Loans	-	-	-	-	-
1.5 Other	6,850	7,753	(8,373)	(5,419)	811
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	**18**	**10,209**	**(1,460)**	**(11,009)**	**(2,364)**
4.1 Financial derivatives:	18	10,209	(1,460)	(11,009)	(2,364)
- on loan instruments and interest rates	18	9,813	(1,460)	(10,805)	(2,434)
- on equity securities and share indices	-	396	-	(204)	192
- on currency and gold	X	X	X	X	(122)
- other	-	-	-	-	-
4.2 Credit derivatives	-	-	-	-	-
Total	**8,228**	**21,577**	**(9,872)**	**(16,464)**	**3,347**

The sub-item “Financial derivatives - on debt securities and interest rates”, negative by 2.4 million, refers to margins and differentials on IRSs held for trading, futures, and options on securities and rates.

Section 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.

Section 6 Profit (loss) from sale/repurchase – Item 100

6.1 Profit (loss) from sale/repurchase: breakdown

Items/Income components	31.12.2012			31.12.2011		
(thousands of Euro)	Profit	Loss	Net result	Profit	Loss	Net result
Financial assets						
1. Due from banks	97	-	97	97	-	97
2. Loans to customers	-	-	-	-	-	-
3. Financial assets available for sale	6,004	(3,202)	- 2,802	536	(330)	206
3.1 Debt securities	6,004	(3,202)	2,800	524	(330)	194
3.2 Equities	2	-	2	12	-	12
3.3 UCITS units	-	-	-	-	-	-
3.4 Loans	-	-	-	-	-	-
4. Financial assets held to maturity	4	-	4	6	-	6
Total assets	**6,105**	**(3,202)**	**2,903**	**639**	**(330)**	**309**
Financial liabilities						
1. Due to banks	93	-	93	-	-	-
2. Due to customers	-	-	-	-	-	-
3. Outstanding securities	1,083		1,083	794	(23)	771
Total liabilities	**1,176**	**-**	**1,176**	**794**	**(23)**	**771**

Section 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)	Profit from disposals (B)	Capital Losses (C)	Losses from disposals (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	**1,665**	**1,393**	**(2,891)**	**-**	**167**
2.1 Debt securities	1,427	1,393	(2,891)	-	(71)
2.2 Due to banks	238	-	-	-	238
2.3 Due to customers	-	-	-	-	-
3. Financial assets and liabilities in currency: exchange differences	X	X	X	X	-
4. Financial and credit derivatives	**824**	**328**	**(238)**	**-**	**914**
Total	**2,489**	**1,721**	**(3,129)**	**-**	**1,081**

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.

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

8.1 Net value adjustments for impairment of receivables: breakdown

Transactions/ Income components *(thousands of Euro)*	Value adjustments			Write-backs				2012	2011
	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	**(758)**	**(30,172)**	**(3,357)**	**3,004**	**4,731**		-	**(26,552)**	**(19,605)**
Purchased non-performing loans	-	-	-	-	-	-	-	-	-
- Loans	-	-	X	-	-	X	X	-	-
- Debt securities			X			X	X		-
Other receivables	(758)	(30,172)	(3,357)	3,004	4,731		-	**(26,552)**	**(19,605)**
- Loans	(758)	(30,172)	(3,357)	3,004	4,731		-	**(26,552)**	**(19,605)**
- Debt securities	-	-	-	-	-	-	-	-	-
C. Total	**(758)**	**(30,172)**	**(3,357)**	**3,004**	**4,731**	**-**	**-**	**(26,552)**	**(19,605)**

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" mainly refers to write-backs on default interest on bad debts, as well as 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		2012	2011
	Specific		Specific			
	Derecognitions	Other	A	B		
A. Debt securities	-	-	-	-	-	-
B. Equities	-	(1,838)	X	X	(1,838)	-
C. UCITS units	-	-	X	-	-	-
D. Loans to banks	-	-	-	-	-	-
E. Loans to customers	-	-	-	-	-	-
F. Total	**-**	**(1,838)**	**-**	**-**	**(1,838)**	**-**

Key
A = From interest
B = Other write-backs

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				2012	2011
	Specific		Portfolio	Specific		Portfolio			
	Derecognitions	Other		From interest	Other write-backs	From interest	Other write-backs		
A. Guarantees issued	-	(298)	-	-	394	-	-	**96**	**60**
B. Credit derivatives	-	-	-	-	-	-	-	-	-
C. Commitments to disburse funds	-	-	-	-	-	-	-	-	-
D. Other transactions	-	-	-	-	-	-	-	-	-
E. Total	**-**	**(298)**	**-**	**-**	**394**	**-**	**-**	**96**	**60**

Section 9 Administrative costs - Item 150

9.1 Personnel costs: breakdown

Type of cost/Amounts *(thousands of Euro)*	31.12.2012	31.12.2011
1) Employees	72,655	74,009
a) salaries and wages	49,588	49,699
b) social security costs	14,165	14,227
c) employee termination indemnities	-	-
d) pension costs	-	-
e) provisions to staff severance indemnities	2,588	(*) 3,272
f) provisions for pension fund and similar commitments:	-	-
- to defined contribution plans	-	-
- with defined benefits	-	-
g) payments to additional external pension funds:	2,442	3,756
- to defined contribution plans	2,442	3,756
- with defined benefits	-	-
h) costs resulting from payment agreements based on own equity instruments	-	-
i) other employee benefits	3,872	3,055
2) Other working staff	7	16
3) Directors and auditors	1,078	1,089
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	**73,740**	**(*) 75,114**

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

The data for 2011 was restated from what had been originally published due to the retrospective application of the revised IAS 19 - Employee Benefits.

9.2 Average number of employees per category

(thousands of Euro)	31.12.2012	31.12.2011
1. **Employees**	**1,008**	**1,035**
a) Officers	29	28
b) Line managers	358	360
c) Remaining employees	621	647
2. **Other employees**	-	-
Total	**1,008**	**1,035**

The average number of employees does not include the directors and auditors. Part-time employees are considered at 50%, 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)	31.12.2012	31.12.2011
1. Equipment and software leasing charges	1,161	1,290
2. Vehicle circulation and travel/accommodation reimbursements	1,468	1,485
3. Fees for professional services	3,964	5,136
4. Membership fees	423	466
5. SEC (consortium data processing centre) management costs	7,888	8,084
6. Donations	286	261
7. Property rental	4,966	4,725
8. Stamp duty and tax on stock exchange contracts	8,210	7,460
9. Indirect taxes	564	424
10. Insurance premiums	850	803
11. Transport	942	905
12. Security services	849	1,164
13. Electricity, heating, and condominium fees	1,737	1,592
14. Office supplies	1,089	1,112
15. Investigation and commercial information	1,417	1,403
16. Legal fees for credit collection	2,148	3,757
17. Property, furniture and plant maintenance	3,943	3,706
18. Advertising and entertainment	3,407	3,621
19. Office cleaning	1,171	1,312
20. Telephone, postal, data transmission and telex	2,405	2,429
21. Taxes and duties	1,706	1,776
22. Other costs	421	173
Total	**51,015**	**53,084**

Section 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)	31.12.2012	31.12.2011
a) Provision for civil disputes, revocatory bankruptcy action and other charges	(1,521)	(972)
b) Release of provisions	425	80
Total	**(1,096)**	**(892)**

Section 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)*	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Tangible assets				
A.1 Owned	(6,621)	(6,750)	-	(13,371)
- for functional use	(6,621)	(6,750)	-	(13,371)
- for investment	-	-	-	-
A.2 Purchased under finance lease	-	-	-	-
- for functional use	-	-	-	-
- for investment	-	-	-	-
Total	**(6,621)**	**(6,750)**	**-**	**(13,371)**

Section 12 Net value adjustments on intangible assets – Item 180

12.1 Net value adjustments on intangible assets: breakdown

Asset/Income component *(thousands of Euro)*	Amortisation (a)	Value adjustments for impairment (b)	Write-backs (c)	Net result (a+b-c)
A. Intangible assets				
A.1 Owned	(1,432)	-	-	(1,432)
- generated internally by the company	-	-	-	-
- other	(1,432)	-	-	(1,432)
A.2 Purchased under finance lease	-	-	-	-
Total	**(1,432)**	**-**	**-**	**(1,432)**

Section 13 Other operating income and costs – Item 190

13.1 Other operating costs: breakdown

(thousands of Euro)	31.12.2012	31.12.2011
1. Cash, material, and operating differences	(73)	(122)
2. Losses on receivables from Deposit Insurance Funds	(265)	(177)
3. Other costs	(1,872)	(1,891)
Total	**(2,210)**	**(2,190)**

13.2 Other operating income: breakdown

(thousands of Euro)	**31.12.2012**	**31.12.2011**
1. Property rental	438	384
2. Recovery of management costs	3,626	2,841
3. Charges to third parties for various recoveries	9,618	8,834
4. Other income	1,130	868
Total	**14,812**	**12,927**

Section 14 Profit (loss) on equity investments – Item 210

14.1 Profit (loss) on equity investments: breakdown

Income component/Amounts *(thousands of Euro)*	31.12.2012	31.12.2011
A. Income	112	318
1. Revaluations	-	-
2. Profit from disposals	-	-
3. Write-backs	112	318
4. Other income	-	-
B. Charges	(348)	-
1. Write-downs	-	-
2. Value adjustments for impairment	(348)	-
3. Losses from disposal	-	-
4. Other costs	-	-
Net result	**(236)**	**318**

Section 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.

Section 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 recognised during the financial year.

Section 17 Profit (loss) from disposal of investments – Item 240

17.1 Profit (loss) from disposal of investments: breakdown

Income component/Amounts *(thousands of Euro)*	31.12.2012	31.12.2011
A. Property	-	-
- Profit from disposals	-	-
- Losses from disposal	-	-
B. Other assets	(9)	54
- Profit from disposals	29	54
- Losses from disposal	(38)	-
Net result	**(9)**	**54**

Section 18 Income tax for the year on current operations - Item 260

18.1 Year-end income taxes for current operations: breakdown

Income component/Amounts *(thousands of Euro)*	IRES (CORPORATE INCOME TAX)	IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)	31.12.2012	31.12.2011
1. Current taxes (-)	(14,833)	(3,737)	(18,570)	(*) (17,151)
2. Changes in current taxes compared to previous years (+/-)	-	-	-	-
3. Reduction in current taxes for the year (+)	-	-	-	-
3. bis Reduction in current taxes for the year from tax credits pursuant to Italian Law no. 214/2011 (+)	-	-	-	-
4. Changes in prepaid taxes (+/-)	4,574	207	4,781	2,610
5. Changes in deferred tax liabilities (+/-)	(471)	306	(165)	(289)
6. Taxes for the year (-) (-1+/-2+3+/-4+/-5)	(10,730)	(3,224)	(13,954)	(*) (14,830)

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

Some of the data as at 31.12.2011 shown in the table above and the following ones may not be the same as the data published in the financial statements for the year ended 31 December 2011 due to the restatement resulting from retrospective application of the most recent version of the standard “IAS 19 - Employee benefits”.

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	**9,772**	**27.50%**
Tax-free losses on equity investments	601	1.69%
Non-deductible interest expense	774	2.18%
Non-deductible costs	1,184	3.33%
Total tax effect of increases	**2,559**	**7.20%**
Dividends	(60)	-0.17%
Other decreases	(1,541)	-4.34%
Total tax effect of decreases	**(1,601)**	**-4.51%**
IRES tax charged to the income statement	**10,730**	**30.19%**

(thousands of Euro)	**IRAP (REGIONAL TAX ON PRODUCTIVE ACTIVITIES)**	**%**
IRAP tax with application of nominal rate	**1,711**	**4.82%**
Personnel costs	2,298	6.47%
Net value adjustments for impairment	1,362	3.83%
Non-deductible interest expense	136	0.38%
Other increases	482	1.36%
Total tax effect of increases	**4,278**	**12.04%**
Dividends	(6)	-0.02%
Other decreases	(2,759)	-7.76%
Total tax effect of decreases	**(2,765)**	**-7.78%**
IRAP tax charged to the income statement	**3,224**	**9.08%**

Section 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.

Section 20 Other information

(thousands of Euro)		**31.12.2012**	**31.12.2011**
a)	**Debit adjustments**	**350,731**	**381,640**
	1. Current accounts	86,454	82,466
	2. Central portfolio	258,694	295,637
	3. Cash on Hand	1,270	3,451
	4. Other accounts	4,313	86
b)	**Credit adjustments**	**403,235**	**404,069**
	1. Current accounts	142,327	146,589
	2. Assignment of bills and documents	260,264	256,626
	3. Other accounts	644	854

Section 21 Earnings per share

	31.12.2012	**31.12.2011**
Basic earnings per share	0.62	(*) 0.53
Diluted earnings per share	0.62	(*) 0.53

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

The earnings per share (hereafter also "Earnings per Share" or "EPS") is a performance measure that provides an indication of the shareholders' profit share for the year and is calculated by dividing the profit for the year by the weighted average of outstanding shares.

As at the balance sheet date there are no outstanding transactions having dilutive effects on the number of shares. Below are the data for the weighted average of shares.

	31.12.2012	31.12.2011
Weighted average number of ordinary shares	34,708,210	34,670,319
Adjustment for effects of dilution	-	-
Weighted average number of diluted ordinary 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 information

There is no other significant information other than that already indicated in the previous sections.

PART D 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**	**21,583**
	Other income items			
20.	Available-for-sale financial assets:	7,684	(2,483)	5,201
	a) changes in fair value	5,220	(1,687)	3,533
	b) reallocations to income statement	2,464	(796)	1,668
	- impairment adjustments	-	-	-
	- profit/loss from disposal	2,464	(796)	1,668
	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	(2,834)	-	(2,834)
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**	**4,850**	**(2,483)**	**2,367**
120.	**Comprehensive income (Item 10+110)**	**4,850**	**(2,483)**	**23,950**

PART E INFORMATION ON RISKS AND RELATED HEDGING POLICIES

Section 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, characterised by a high degree of risk spreading, whilst for medium and large enterprises the Bank increased its medium-term lending, particularly with regard to loans backed by real guarantees. Pool loans were provided to distribute major loan risks.

Special focus was targeted on the selection of economic sectors, preferring those considered less at risk. In addition, support provided to companies by means of special finance transactions, such as project financing, managed and monitored in terms of progress and release by means of a specific IT procedure.

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

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

2. Credit risk management policies

2.1 Organisational aspects

Credit risk is the risk of incurring losses due to default by the counterparty or the risk that a 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 (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, which in turn can be broken down into:
  - single name concentration risk is the risk incurred if there is exposure (investments or granting of loans) to one individual or a group of interconnected individuals;
  - sectorial concentration risk is the risk incurred if there is exposure (investments or granting of loans) to individuals operating in the same business sector or geographical area.
- residual risk is the risk that the techniques acknowledged for risk mitigation utilised by the Bank turn out to be effective than expected. The residual risk is manifest, therefore, in relation to the Credit Risk Mitigation techniques utilised to determine the absorption of the capital required to cope with the credit risk.

From an organisational point of view, the process for managing and monitoring credit risk is conducted by special departments and they are governed in such a way as to guarantee performance of the various supervisory controls, as specified in the Regulatory Instructions (Title IV, Chapter 11, Section II). A well-structured internal framework, which is constantly checked to ensure 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;
- checks and analyses the main risk situations;
- 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:* initially (1st application) carried out by the managers of the organisational unit of the retail network, especially through limit excess and unpaid instalment verification performed by branches by means of special procedures and periodic progress report analysis. As a second step, services which are functionally dependent on the Credit management (2nd petition) are carried out; in this respect, the tests generally carried out by the offices responsible for credit assessment and the anomalous loans analysis department are particularly relevant. The minimum supervisory requirements will ensure proper management of credit positions attributable to the branches and corporate centres, such as:
  - implementation of decisions made by the relevant bodies;
  - timely renewal/reimbursement of credit lines at maturity;
  - meeting of the deadlines set for the review of the positions;
  - timely extension of guarantees at maturity (e.g., bank guarantees in our favour, guarantees from guarantee consortia);
  - breach of the accrual rules;
  - absence or incomplete formation of economic groups;
  - use for purposes other than those expected;
  - forms of credit managed in a technically incorrect manner (e.g., multiple lines of credit backed by differently guarantees on a single account, multiple projects managed on a single account).

  Secondly, the anomalous loans analysis department is responsible for supervising credit management/monitoring classified positions by interfacing with the branch and area offices in charge of customer relations; this ensures the systematic control of the risks associated with loans to customers through overseeing and ensuring standard first-level and second-instance controls and risk limitation.
- *special monitoring:* carried out by the 2nd level independent audit offices, i.e. Risk management, Compliance and Manager in charge. The risk management office is in charge of carefully monitoring credit risk. The audits carried out by the Risk management office aimed to define the risk measurement methods, check compliance with the limits assigned and control the consistency of the work of the individual production areas with the assigned risk-reward targets. The regulatory compliance office is responsible for ensuring that internal procedures are consistent with the goal of preventing the breach of external regulations (laws and regulations) or self-regulation (codes of conduct, codes of ethics) applicable to the Bank on credit matters. Compliance audits are carried out through a system of audits aimed at identifying any misalignment caused by any missing/incorrect adoption of regulatory provisions. Finally, the Manager in charge carries out the supervisory tests on the internal control system necessary for the accounting and financial reporting, also by using the specific structure, working in collaboration with the other Bank departments to gather the information flows and certifications.
- *Audits:* performed by the Internal Auditing service 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 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 credit line assignment 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 have a distribution rating system, i.e. an IT tool to verify credit ratings during the allocation stage of new credit lines, making use of internal and external IT sources integrated with the computerised credit line file.

A structured and prudent system of powers approved by the Board of Directors defines the limits for granting credit lines starting from the sales network, where authorisation 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 internal employees that have specific skills and qualifications in providing preliminary investigations, 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 2012 the system proved to have a good, stable capacity to discriminate between "good" and "bad" customers and the capacity to act quickly to change their behaviour and/or economic status/position.

The performance rating is used also when granting credit and revising credit lines and it is one of the essential factors in the framework of authorisation powers. 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 emphasised that the absolute credit limit that can be agreed per business group, individual non-banking counterparty, or member of the banking group is established as 10% of the Regulatory Capital. This limit can however be raised at the complete discretion of the Board of Directors.

Nonetheless, obligations imposed by current supervisory regulations of the Bank of Italy on maximum individual and group credit limits obviously remain binding. In 2012, significant exposure analysis showed that none of these limits had been exceeded.

All loans portfolio risk analyses and data are produced in a detailed quarterly report issued by the Risk management department, submitted for discussion and resolution by the Credit 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 computerised management, control and monitoring.

Personal guarantees are mainly issued by:

- individuals in favour of companies in which they are shareholders and/or directors;
- individuals in favour of family members;
- credit syndicates in favour of their associate companies/firms (subsequent to agreements stipulated with the Bank).

To a more limited extent, there are also personal guarantees by companies in favour of subsidiaries/associated companies and by financial institutions primarily in favour of companies.

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

To conclude, as verification of the legal and operational effectiveness of the guarantees, an IT/organisational/legal system is used (computerised credit line file) providing online texts and help on the various guarantees in accordance with Italian Bankers' Association (ABI) regulations, including:

- operating procedures governed by national law, pronouncing and establishing regulations on values attributable to guarantees obtained (appraisals, confirmation/verification/monitoring of events with mass land registry searches, real-time online assessment of listed securities, etc.)
- verification of signature authenticity on the various guarantees (from company documents, “signed in the presence of” bank officers, confirmation by notary deed, etc.).

Adoption of the Credit Risk Mitigation methods to calculate the Bank’s regulatory capital in accordance with Basel II led to the accurate definition of forecasting, valuation and 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, in accordance with the Bank of Italy standards (Circular no. 263 dated 27.12.2006 as amended), show a continued uncovered situation of more than 90 days and where the exposure is 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 organisational aspects, alongside the sales network impaired credit not classed as a bad debt is also monitored by the anomalous loans analysis 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 optimise legal proceedings and maximise the financial result. In particular, with regard to assessment of the initiatives to be taken, in-house legal advisors prefer out-of-court action, often with recourse to settlement agreements, which have a positive impact on collection times and the level of costs sustained. Where this solution cannot be carried out in a reasonable timeframe, especially for more significant positions and positions in which a higher level of collection can be expected, external legal advisors are appointed to instigate legal action which always constitutes a valid and fundamental coercive means to the debtor and a tool to resolve litigation. Credit that is minimal, irrecoverable, or difficult to collect is generally treated en masse and subjected to disposal transactions without recourse, given that legal action would be considered uneconomic in cost-benefit terms, or is assigned to a specialist credit collection company.

For the financial statements the value adjustments for performing and non-performing loans are calculated according to current regulatory provisions and in a way to obtain a valuation that is as prudent and conservative as possible. In particular, bad debts are subject to analytical assessment to define provisions for expected losses. For each position, and for each relationship within the position, the extent of the expected loss is analytically calculated on the basis of debtor solvency, the type of guarantee, the current status of proceedings taken and, above all, on the value of the guarantees. The estimates are always calculated using maximum prudence criteria and performed or validated by qualified internal personnel, organisationally independent of the credit disbursement/assessment/collection processes. These also always take into account the need to dispose of 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, 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	-	-	-	-	104,149	**104,149**
2. Available-for-sale financial assets	-	-	-	-	304,923	**304,923**
3. Financial assets held to maturity	-	-	-	-	1,080	**1,080**
4. Due from banks	-	-	-	-	156,512	**156,512**
5. Loans to customers	135,513	133,729	27,284	38,199	4,681,763	**5,016,488**
6. Financial assets carried at fair value	-	-	-	-	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	**-**
8. Hedges	-	-	-	-	-	**-**
Total as at 31.12.2012	**135,513**	**133,729**	**27,284**	**38,199**	**5,248,427**	**5,583,152**
Total as at 31.12.2011	**130,275**	**103,443**	**10,617**	**11,277**	**5,020,271**	**5,275,883**

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	104,149	**104,149**
2. Available-for-sale financial assets	-	-	-	304,923	-	304,923	**304,923**
3. Financial assets held to maturity	-	-	-	1,080	-	1,080	**1,080**
4. Due from banks	-	-	-	156,512	-	156,512	**156,512**
5. Loans to customers	467,025	(132,300)	334,725	4,703,350	(21,587)	4,681,763	**5,016,488**
6. Financial assets carried at fair value	-	-	-	X	X	-	**-**
7. Financial assets held for disposal	-	-	-	-	-	-	**-**
8. Hedges	-	-	-	X	X	-	**-**
Total as at 31.12.2012	**467,025**	**(132,300)**	**334,725**	**5,270,014**	**(21,587)**	**5,248,427**	**5,583,152**
Total as at 31.12.2011	**363,551**	**(107,939)**	**255,612**	**5,040,623**	**(20,352)**	**5,020,271**	**5,275,883**

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	-	-	-	-	-
- other exposure	147,882	20,271	28,094	1,099	197,346
Total as at 31.12.2012	**147,882**	**20,271**	**28,094**	**1,099**	**197,346**
Total as at 31.12.2011	**176,428**	**15,807**	**6,798**	**-**	**199,033**

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	247,899	X	-	**247,899**
TOTAL A	**247,899**	**-**	**-**	**247,899**
B. OFF-BALANCE SHEET EXPOSURES				
a) Non-performing	-	-	X	-
b) Other	23,719	X	-	**23,719**
TOTAL B	**23,719**	**-**	**-**	**23,719**
TOTAL A+B	**271,618**	**-**	**-**	**271,618**

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: changes in 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	245,280	(109,767)	X	**135,513**
b)	Watchlist	148,106	(14,378)	X	**133,728**
c)	Restructured exposures	34,161	(6,876)	X	**27,285**
d)	Past due exposures	39,478	(1,279)	X	**38,199**
e)	Other assets	4,997,419	X	(21,587)	**4,975,832**
	TOTAL A	**5,464,444**	**(132,300)**	**(21,587)**	**5,310,557**
B.	**OFF-BALANCE SHEET EXPOSURES**				
a)	Non-performing	8,215	(887)	X	**7,328**
b)	Other	433,271	X	-	**433,271**
TOTAL B		**441,486**	**(887)**	**-**	**440,599**
TOTAL A+B		**5,905,930**	**(133,187)**	**(21,587)**	**5,751,156**

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: changes in gross impaired exposures

Reasons/Categories *(thousands of Euro)*		Bad debt	Watchlist	Restructured exposures	Past due exposures
A.	**Gross opening exposure**	**219,771**	**115,928**	**16,398**	**11,455**
	of which: exposures sold and not cancelled	4,464	1,265	-	560
B.	**Increases**	**54,090**	**121,023**	**32,672**	**117,487**
B.1	Income from performing loan exposure	5,690	69,278	-	113,216
B.2	Transfers from other categories of impaired exposures	42,876	46,260	31,916	250
B.3	Other increases	5,524	5,485	756	4,021
C.	**Decreases**	**28,581**	**88,845**	**14,909**	**89,464**
C.1	Transferred to performing loans	681	16,239	-	40,319
C.2	Derecognitions	5,576	10	-	-
C.3	Collections	22,324	11,115	11	4,001
C.4	Sale proceeds	-	39	-	182
C.5	Transfers to other categories of impaired exposures	-	61,442	14,898	44,962
C.6	Other decreases	-	-	-	-
D.	**Gross closing exposure**	**245,280**	**148,106**	**34,161**	**39,478**
	of which: exposures sold and not cancelled	3,852	1,136	-	183

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**	**89,496**	**12,484**	**5,781**	**178**
	of which: exposures sold and not cancelled	306	-	-	3
B.	**Increases**	**32,873**	**15,535**	**7,195**	**3,493**
B.1	Value adjustments	25,441	13,279	185	2,864
B.1	bis Loss on disposal	-	-	-	-
B.2	Transfers from other categories of impaired exposures	8,326	2,256	7,010	8
B.3	Other increases	308	-	-	621
C.	**Decreases**	**12,602**	**13,642**	**6,100**	**2,392**
C.1	Write-back from valuation	7,977	-	-	-
C.2	Write-back from collection	1,878	2,770	373	97
C.2	bis Profit on disposal	-	-	-	-
C.3	Derecognitions	3,949	18	-	-
C.4	Transfers to other categories of impaired exposures	-	10,038	5,727	1,835
C.5	Other decreases		816	-	460
D.	**Overall closing adjustments**	**109,767**	**14,377**	**6,876**	**1,279**
	of which: exposures sold and not cancelled	305	27	-	1

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 is 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)	Net exposure value	Real guarantees (1)				Personal guarantees (2)									Total (1)+(2)
						Credit derivatives					Credit commitments				
							Other derivatives								
		Mortgaged property	Property in financial lease	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	3,953,367	3,010,242	-	65,466	16,451	-	-	-	-	-	-	25,337	419	690,032	3,807,947
1.1 fully guaranteed	3,588,057	2,878,286	-	58,726	15,195	-	-	-	-	-	-	21,628	419	613,803	3,588,057
- of which impaired	254,148	220,768	-	454	364	-	-	-	-	-	-	-	9	32,553	254,148
1.2 part guaranteed	365,310	131,956	-	6,740	1,256	-	-	-	-	-	-	3,709	-	76,229	219,890
- of which impaired	53,519	34,087	-	77	16	-	-	-	-	-	-	-	-	10,730	44,910
2. Off balance sheet guaranteed loan exposures:	121,007	15,046	-	3,077	1,245	-	-	-	-	-	-	-	475	100,331	120,174
2.1 fully guaranteed	111,971	15,046	-	2,200	1,145	-	-	-	-	-	-	-	297	93,283	111,971
- of which impaired	2,975	593	-	39	2	-	-	-	-	-	-	-	-	2,341	2,975
2.2 part guaranteed	9,036	-	-	877	100	-	-	-	-	-	-	-	178	7,048	8,203
- of which impaired	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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	59	(265)	X	-	-	X	106,255	(91,339)	X	29,198	(18,163)	X
A.2 Watchlist	-	-	X	-	-	X	-	(6)	X	-	-	X	124,724	(13,228)	X	9,005	(1,143)	X
A.3 Restructured exposures	-	-	X	-	-	X	-	-	X	-	-	X	27,285	(6,876)	X	-	-	X
A.4 Past due exposures	-	-	X	-	-	X	344	(2)	X	-	-	X	28,864	(1,179)	X	8,991	(98)	X
A.5 Other exposures	262,001	X	-	7,470	X	(35)	165,713	X	(221)	24,243	X	(1)	2,837,707	X	(13,413)	1,678,698	X	(7,918)
Total A	**262,001**	**-**	**-**	**7,470**	**-**	**(35)**	**166,116**	**(273)**	**(221)**	**24,243**	**-**	**(1)**	**3,124,835**	**(112,622)**	**(13,413)**	**1,725,892**	**(19,404)**	**(7,918)**
B. "Off-balance-sheet" exposure																		
B.1 Bad debt	-	-	X	-	-	X	-	-	X	-	-	X	1,304	(842)	X	27	(45)	X
B.2 Watch list	-	-	X	-	-	X	-	-	X	-	-	X	3,155	-	X	102	-	X
B.3 Other impaired assets	-	-	X	-	-	X	-	-	X	-	-	X	2,715	-	X	25	-	X
B.4 Other exposures	21,786	X	-	2,516	X	-	8,353	X	-	-	X	-	384,494	X	-	112,092	X	-
Total B	**21,786**	**-**	**-**	**2,516**	**-**	**-**	**8,353**	**-**	**-**	**-**	**-**	**-**	**391,668**	**(842)**	**-**	**112,246**	**(45)**	**-**
Total as at 31.12.2012	**283,787**	**-**	**-**	**9,986**	**-**	**(35)**	**174,469**	**(273)**	**(221)**	**24,243**	**-**	**(1)**	**3,516,503**	**(113,464)**	**(13,413)**	**1,838,138**	**(19,449)**	**(7,918)**
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)**

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	135,366	(109,371)	146	(396)	-	-	-	-	-	-
A.2 Watchlist	132,985	(14,351)	744	(26)	-	-	-	-	-	-
A.3 Restructured exposures	27,285	(6,876)	-	-	-	-	-	-	-	-
A.4 Past due exposures	38,198	(1,279)	-	-	-	-	-	-	-	-
A.5 Other exposure	4,910,647	(21,360)	63,825	(222)	1,306	(6)	-	-	55	-
Total	**5,244,481**	**(153,237)**	**64,715**	**(644)**	**1,306**	**(6)**	**-**	**-**	**55**	**-**
B. "Off-balance-sheet" exposure										
B.1 Bad debt	1,331	(887)	-	-	-	-	-	-	-	-
B.2 Watchlist	3,256	-	-	-	-	-	-	-	-	-
B.3 Other impaired assets	2,740	-	-	-	-	-	-	-	-	-
B.4 Other exposure	515,302	-	13,939	-	-	-	-	-	-	-
Total	**522,629**	**(887)**	**13,939**	**-**	**-**		**-**	**-**	**-**	**-**
Total as at 31.12.2012	**5,767,110**	**(154,124)**	**78,654**	**(644)**	**1,306**	**(6)**	**-**	**-**	**55**	**-**
Total as at 31.12.2011	**5,442,531**	**(127,606)**	**72,188**	**(678)**	**7,494**	**(8)**	**-**	**-**	**-**	**-**

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	10,329	(2,310)	123,394	(105,397)	1,458	(737)	185	(927)	135,366	(109,371)
A.2	Watchlist	6,992	(2,402)	125,905	(11,917)	80	(30)	8	(2)	132,985	(14,351)
A.3	Restructured exposures	-	-	27,285	(6,876)	-	-	-	-	27,285	(6,876)
A.4	Past due exposures	935	(20)	37,146	(1,258)	-	-	117	(1)	38,199	(1,279)
A.5	Other exposure	162,610	(646)	4,348,958	(20,214)	385,476	(433)	13,603	(67)	4,910,647	(21,360)
Total		**180,866**	**(5,378)**	**4,662,688**	**(145,662)**	**387,014**	**(1,200)**	**13,913**	**(997)**	**5,244,481**	**(153,237)**
B.	**"Off-balance-sheet" exposure**										
B.1	Bad debt	-	-	1,330	(887)	-	-	2	-	1,332	(887)
B.2	Watchlist	-	-	3,253	-	-	-	3	-	3,256	-
B.3	Other impaired assets	-	-	2,740	-	-	-	-	-	2,740	-
B.4	Other exposure	14,167	-	478,484	-	22,381	-	269	-	515,301	-
Total		**14,167**	**-**	**485,807**	**(887)**	**22,381**	**-**	**274**	**-**	**522,629**	**(887)**
Total as at 31.12.2012		**195,034**	**(5,378)**	**5,148,495**	**(146,549)**	**409,395**	**(1,200)**	**14,187**	**(997)**	**5,767,110**	**(154,124)**
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)**

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	215,294	-	27,106	-	5,458	-	4	-	37	-
Total		**215,294**	**-**	**27,106**	**-**	**5,458**	**-**	**4**	**-**	**37**	**-**
B.	**"Off-balance-sheet" exposure**										
B.1	Bad debt	-	-	-	-	-	-	-	-	-	-
B.2	Watchlist	-	-	-	-	-	-	-	-	-	-
B.3	Other impaired assets	-	-	-	-	-	-	-	-	-	-
B.4	Other exposure	7,797	-	15,798	-	-	-	-	-	123	-
Total		**7,797**	**-**	**15,798**	**-**	**-**	**-**	**-**	**-**	**123**	**-**
Total as at 31.12.2012		**223,091**	**-**	**42,904**	**-**	**5,458**	**-**	**4**	**-**	**160**	**-**
Total as at 31.12.2011		**243,844**	**-**	**87,871**	**-**	**3,009**	**-**	**796**	**-**	**13**	**-**

B.4 Significant exposures

With the 6th update of the Circular 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 with the Directive 2009/111/EC. The new regulation that came into effect on 31 December 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 recognised 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)
31.12.2012	5	576,493	152,571
31.12.2011	4	293,999	154,123

C) SECURITIZATION AND ASSET DISPOSAL TRANSACTIONS

C.1 Securitisation transactions

QUALITATIVE INFORMATION

Securitisation of residential mortgages – S.P.V. VOBA Finance S.r.l. (September 2006)

Issue characteristics

The first securitisation transaction was completed in the final months of FY 2006 and involved the disposal without recourse of performing loans, comprising mortgages to individuals, to a newly formed SPV (Voba Finance S.r.l.). To finance loan purchases, Voba Finance S.r.l. collects funds on the capital market through the issue of negotiable securities.

The key objective is to obtain liquidity under favourable conditions. By securitisation the objectives achieved are the opposite of those involved in the issue of bonds. In the second case, capital is traded for the entire duration of the loan as a substantial guarantee to subscribers, whereas in the former case the capital is freed up, turning the previously traded loans into cash.

For the securitisation transaction, we undersigned a specific servicing contract with the SPV Voba Finance S.r.l. to coordinate and supervise the management and administration of the securitised mortgages, along with credit collection in the event of default by the debtors. An ad hoc credit control system was arranged for the securitised loans to guarantee constant and timely monitoring.

The agreement calls for the payment of an annual fee for the servicing performed and compensation for every file subject to credit collection. It should be specified that the role of servicer is provided from within the company structure, i.e. by the Credit Management Service, reporting to the central financial services department. Monthly and quarterly reports are prepared and issued to the counterparties indicated in the servicing agreement, and copied to central management.

With regard to credit risk management, however, reference should be made to the general Bank activities relating to credit management.

Acting not only as originator but also as servicer, the Company maintains relations with transferred customers.

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
- Nominal 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/A2	78.00%	295,050,000
Class B	AAA/A2	1.50%	5,650,000
Class C	AA/A3	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 the Company. As at the balance sheet date, SPV Voba Finance S.r.l. fully redeemed the Class A1 securities. A total of 81.1 million in securities remain, 62.2 million of which are Class A2, 5.7 million of which are Class B and 5.7 million of which are Class C and 7.6 million of which are 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 Euro 30,000,000 as cash reserve, with repayment at market rates.

As an additional guarantee, a swap transaction was arranged with a leading institutional investor. As coupons become payable the Bank collects the average capital return at a market interest rate. The counterparty, on the other hand, guarantees the interest actually collected for that period.

There is a speculative arrangement between the SPV and the same institutional investor. From this, the SPV recognises the actual interest collected for the period and receives the return on the underlying capital at market interest rates, used to pay the coupons on securities issued.

QUANTITATIVE INFORMATION

C.1.1 Exposures from securitisation 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:	**16,089**	**16,089**	**3,850**	**3,850**	**7,600**	**7,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	16,089	16,089	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 securitisation transactions according to securitised asset type and exposure type*

Securitised asset type/Exposures *(thousands of Euro)*	Cash exposure						Guarantees issued						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Carrying amount	Value adjustments/write-backs	Carrying amount	Value adjustments/write-backs	Carrying amount	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 derecognised	**16,089**	**-**	**3,850**	**-**	**7,600**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Voba Finance S.r.l. -Mortgage loans	16,089	-	3,850	-	7,600	-	-	-	-	-	-	-	-	-	-	-	-	-

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

Underlying asset type/Exposures *(thousands of Euro)*	**Cash exposure**						**Guarantees issued**						**Credit lines**					
	Senior		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**		**Senior**		**Mezzanine**		**Junior**	
	Carrying amount	**Value adjustments/write-backs**	**Carrying amount**	**Value adjustments/write-backs**	**Carrying amount**	**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	1,080	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

C.1.4 Exposures deriving from securitisation 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**	**31.12.2012**	**31.12.2011**
1. Cash exposure	**-**	**-**	**-**	**1,080**	**-**	**1,080**	**4,739**
- "Senior"	-	-	-	1,080	-	1,080	4,739
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-
2. Off-balance sheet exposures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- "Senior"	-	-	-	-	-	-	-
- "Mezzanine"	-	-	-	-	-	-	-
- "Junior"	-	-	-	-	-	-	-

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

Asset/Value ***(thousands of Euro)***	**Traditional securitisations**	**Synthetic securitisations**
A. Underlying bank assets:	**27,539**	**-**
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 derecognised	27,539	-
1. Bad debt	3,852	-
2. Watchlist	1,136	-
3. Restructured exposures	-	-
4. Past due exposures	186	-
5. Other assets	22,365	-
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 - securitised credit collections and repayment of SPV-issued securities

SPV *(thousands of Euro)*	Securitised assets (year-end figure)		Loan collections Made in the year		Percentage of securities redeemed (year-end figure)					
	Non-performing	Performing	Non-performing	Performing	Senior		Mezzanine		Junior	
					Impaired assets	Performing assets	Impaired assets	Performing assets	Impaired assets	Performing assets
Voba Finance S.r.l.	5,174	133,279	1,511	22,054	-	82.69%	-	-	-	-

C.2 Disposal transactions

The information in this section regards all disposal transactions, including the securitisation transactions.

A. Financial assets sold but not fully derecognised

QUALITATIVE INFORMATION

The transactions mainly refer to the use of debt securities in the portfolio for short and medium term repurchase agreements and loans to customers sold as part of the Voba Finance S.r.l. securitisation transaction. Please refer to the Notes to the accounts – part B for more information on the debt security transactions against the medium and long term repurchase agreements.

QUANTITATIVE INFORMATION

C.2.1 Financial assets sold and not derecognised: carrying amount and full value

Technical/portfolio formats	**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**	
(thousands of Euro)	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**	**31.12.2012**	**31.12.2011**
A. Cash assets	711	-	-	-	-	-	63,751	-	-	-	-	-	-	-	-	137,520	-	-	201,982	194,120
1. Debt securities	711	-	-	-	-	-	63,751	-	-	-	-	-	-	-	-	-	-	-	64,462	32,510
2. Equities	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	-	X	X	-	-
3. UCITS	-	-	-	-	-	-	-	-	-	X	X	X	X	X	X	-	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	137,520	-	-	137,520	161,610
B. Derivatives	-	-	-	X	X	X	-	X	X	X	X	X	X	X	X	X	X	X	-	-
Total as at 31/12/2012	**711**	**-**	**-**	**-**	**-**	**-**	**63,751**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**137,520**	**-**	**-**	**201,982**	X
of which impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4,842**	**-**	**-**	**4,842**	X
Total as at 31/12/2011	**13,173**	-	-	-	-	-	**19,337**	-	-		-	-	-	-	-	**161,610**	**-**	**-**	**X**	**194,120**
of which impaired	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,979**	**-**	**-**	**X**	**5,979**

A = financial assets sold and fully recognised (carrying amount)

B = financial assets sold and partly recognised (carrying amount)

C = financial assets sold and part recognised (carrying amount)

C.2.2 Financial liabilities from financial assets sold but not derecognised: carrying amount

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	**22,198**	**-**	**73,771**	**-**	**-**	**50,338**	**146,307**
a) in relation to assets recognised in full	22,198	-	73,771	-	-	50,338	**146,307**
b) in relation to assets recognised partly	-	-	-	-	-	-	**-**
2. Due to banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**
a) in relation to assets recognised in full	-	-	-	-	-	-	**-**
b) in relation to assets recognised partly	-	-	-	-	-	-	**-**
Total as at 31/12/2012	**22,198**	**-**	**73,771**	**-**	**-**	**50,338**	**146,307**
Total as at 31/12/2011	**20,461**	**-**	**19,553**	**-**	**-**	**73,524**	**113,538**

Financial liabilities from financial assets sold but not derecognised regard both securitisation transactions and reverse repurchase agreements against securities recorded as assets. On the other hand, the reverse repurchase agreements made on securities received in repurchase agreements are not included.

C.2.3 Disposal transactions with liabilities recouped exclusively from sold assets: fair value

The fair value of the financial assets sold but still recognised are shown in columns A and B, respectively on a full or partial basis in the balance sheet assets, and the fair value of the associated financial liabilities recorded following said sale if the liabilities can only be recouped from the related assets sold. The case only applies to the VOBA Finance S.r.l. securitisation transaction for Banca Popolare dell'Alto Adige.

Where the assets sold belong to two or more accounting portfolios, the associated liabilities are, as is standard, indicated in proportion to the weight that the assets sold (valued at fair value) - in a given accounting portfolio - has on the overall assets being sold. There were no cases of this type as at 31 December 2012.

Technical/portfolio formats	Financial assets held for trading		Financial assets carried at fair value		Available-for-sale financial assets		Financial assets held to maturity (fair value)		Due from banks (fair value)		Loans to customers (fair value)		(*) Total	
	A	B	A	B	A	B	A	B	A	B	A	B	31.12.2012	31.12.2011
A. Cash assets														
1. Debt securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Equities	-	-	-	-	-	-	X	X	X	X	X	X	-	-
3. UCITS	-	-	-	-	-	-	X	X	X	X	X	X	-	-
4. Loans	-	-	-	-	-	-	-	-	-	-	141,643	-	141,643	-
B. Derivatives	**-**	**-**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**X**	**-**	**-**
Total assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**141,643**	**-**	**141,643**	**-**
C. Associated liabilities														
1. Due to customers	-	-	-	-	-	-	-	-	-	-	**27,540**	-	27,540	-
2. Due to banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**27,540**	**-**	**27,540**	**-**
Net value (T)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**114,103**	**-**	**114,103**	**-**
Net value (T-1)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**X**	**-**

(*) The IASB amendment that introduced the disclosure described in this table applies to financial statements for financial years in place as at 1 July 2011. No comparative disclosure is required.

Key:
A = financial assets sold and fully recognised
B = financial assets sold and partly recognised

B. Financial assets sold and fully derecognised with recognition of the continued involvement

There were no cases of this type as at 31 December 2012.

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 department 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 an adequate empirical approximation of the theoretical distribution of the loan portfolio losses is simulated. The model used is a structural, one-factor asymptotic type 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.

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.

Section 4 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 “Finance policy” and the annual “Operating Plan”.

The main source of interest rate risk is formed by the bond securities held; trading is intended to produce absolute returns to maximise yields on the portfolio in compliance with the Value at Risk (VaR) and Stop-Loss as defined in the document on Limits and powers 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 Investment 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 operating powers for the finance department and liquidity”, both subject to periodic review and consideration by the Board of Directors.

The policy formalises the performance of risk management activities concerning market risks, it defines the tasks and the responsibilities assigned to the various organisational 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 which provides for operational limitations defined in terms of negotiable financial instruments, amounts, duration, investment markets, issue and issuer-types, sector, and rating.

Risk monitoring is carried out by the Risk management department that produces a daily and monthly report subject to scrutiny by the Internal finance Committee (weekly) and 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 authorisation structure for finance operations is based on four levels:

- operating limits;
- position limits: credit risk and concentration;
- Stop-Loss limits;
- Value-at-Risk (VaR) limits.

The 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 authorised risk limits, thanks to a standardised system of daily reporting, checking and testing approximations on reaching thresholds.

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

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

- *VaR of the total portfolio*: in 2012, the 10-day 99% Value-at-Risk (VaR) was, on average, approximately Euro 2.71 million. As at 31 December 2012, the VaR was Euro 1.93 million.
- *VaR of the interest rate risk*: during 2012, the average VaR was approximately Euro 0.92 million. As at 31 December 2012, the interest rate risk VaR was Euro 0.82 million.
- *VaR of the equity portfolio (price risk):* the VaR on the Bank’s Share Portfolio in 2012 recorded an average value of Euro 1.78 million. As at 31 December 2012, the share VaR was Euro 1.10 million.

Quantitative information

1. Supervisor trading portfolio: breakdown 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***	**-**	**36,634**	**4,206**	**3,512**	**5,092**	**-**	**5,313**	**-**
1.1	Debt securities	-	36,634	4,206	3,512	5,092	-	5,313	-
	- with option of early redemption	-	-	-	-	-	-	-	-
	- Other	-	36,634	4,206	3,512	5,092	-	5,313	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**20,942**	**1,256**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements	-	20.942	1,256	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**(23,758)**	**370**	**1,736**	**(12,786)**	**(3,061)**	**(6,939)**	**-**
3.1	With underlying security	-	(21,380)	768	9	10,045	10,538		-
- Options		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives		-	(21,380)	768	9	10,045	10,538	-	-
	+ Long positions	-	1,826	1,152	267	10,273	10,538	-	-
	+ Short positions	-	(23,206)	(384)	(258)	(228)	-	-	-
3.2	Without underlying security	-	(2,378)	(398)	1,727	(22,831)	(13,599)	(6,939)	-
- Options		-	18,642	-	(1,273)	(5,831)	(4,599)	(6,939)	-
	+ Long positions	-	38,158	-	17,369	108,158	90,947	52,556	-
	+ Short positions	-	(19,516)	-	(18,642)	(113,989)	(95,546)	(59,495)	-
- Other derivatives		-	(21,020)	(398)	3,000	(17,000)	(9,000)	-	-
	+ Long positions	-	170,464	124,643	16,094	59,003	9,381	-	-
	+ Short positions	-	(191,484)	(125,041)	(13,094)	(76,003)	(18,381)	-	-

Currency: US Dollar

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 option of early redemption	-	-	-	-	-	-	-	-
	- Other	-	-	-	-	4	-	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**44,993**	**(590)**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
- Options		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	44,993	(590)	-	-	-	-	-
- Options		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives		-	44,993	(590)	-	-	-	-	-
	+ Long positions	-	57,796	512	-	-	-	-	-
	+ Short positions	-	(12,803)	(1,102)	-	-	-	-	-

Currency: GB pound

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 option of early redemption	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**(14)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
- Options		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	(14)	-	-	-	-	-	-
- Options		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives		-	(14)	-	-	-	-	-	-
	+ Long positions	-	1,409	-	-	-	-	-	-
	+ Short positions	-	(1,423)	-	-	-	-	-	-

Currency: Swiss franc

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 option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Cash liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**(17)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(17)	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	(17)	-	-	-	-	-	-
+ Long positions	-	11,864	-	-	-	-	-	-
+ Short positions	-	(11,881)	-	-	-	-	-	-

Currency: Japanese 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 option of early redemption	-	-	-	-	-	-	-	-
	-	other	-	-	-	-	-	-	-	-
1.2	Other assets		-	-	-	-	-	-	-	-
2.	***Cash liabilities***		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements		-	-	-	-	-	-	-	-
2.2	Other liabilities		-	-	-	-	-	-	-	-
3.	***Financial derivatives***		**-**	**(440)**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security		-	-	-	-	-	-	-	-
- Options			-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
- Other derivatives			-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security		-	(440)	-	-	-	-	-	-
- Options			-	-	-	-	-	-	-	-
	+	Long positions	-	-	-	-	-	-	-	-
	+	Short positions	-	-	-	-	-	-	-	-
- Other derivatives			-	(440)	-	-	-	-	-	-
	+	Long positions	-	1,959	-	-	-	-	-	-
	+	Short positions	-	(2,399)	-	-	-	-	-	-

Currency: Other

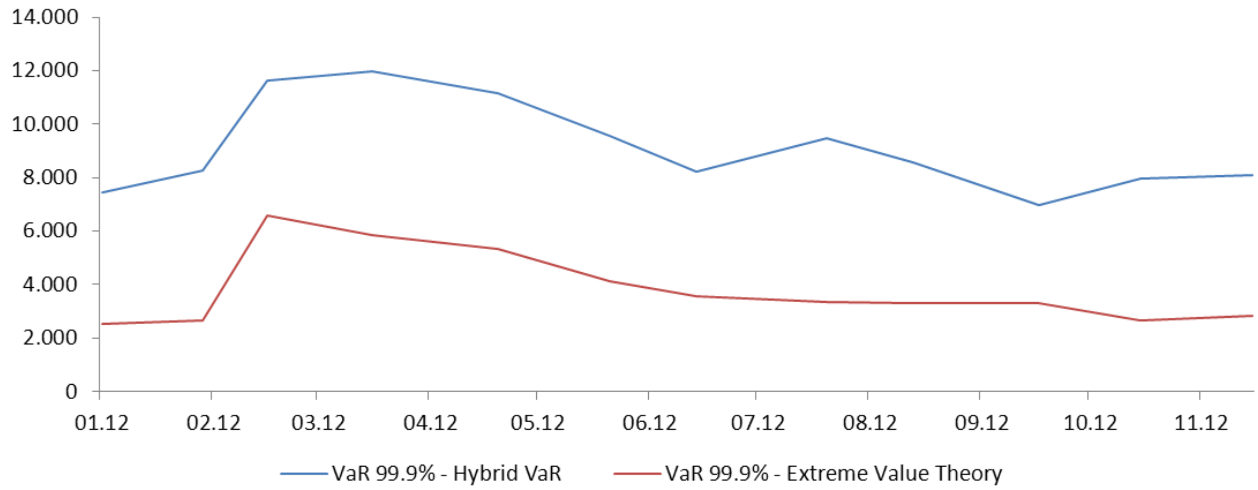
Type/Residual life ***(thousands of Euro)***		**On demand**	**Under 3 months**	**From 3 to 6 months**	**From 6 months to 1 year**	**From 1 to 5 years**	**From 5 to 10 years**	**Over 10 years**	**Unspecified life**
1.	***Cash assets***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1	Debt securities	-	-	-	-	-	-	-	-
	- with option of early redemption	-	-	-	-	-	-	-	-
	- other	-	-	-	-	-	-	-	-
1.2	Other assets	-	-	-	-	-	-	-	-
2.	***Cash liabilities***	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1	Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2	Other liabilities	-	-	-	-	-	-	-	-
3.	***Financial derivatives***	**-**	**403**	**-**	**-**	**-**	**-**	**-**	**-**
3.1	With underlying security	-	-	-	-	-	-	-	-
- Options		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
3.2	Without underlying security	-	403	-	-	-	-	-	-
- Options		-	-	-	-	-	-	-	-
	+ Long positions	-	-	-	-	-	-	-	-
	+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives		-	403	-	-	-	-	-	-
	+ Long positions	-	475	-	-	-	-	-	-
	+ Short positions	-	(72)	-	-	-	-	-	-

2. Supervisory trading portfolio: breakdown of the exposures in equities and share indexes by leading countries of the listed market

The Company did not hold any equities or share indexes classified in the supervisory trading portfolio as at the date of the financial statements.

3. Supervisory trading portfolio: internal models and other methods of sensitivity analysis

The VaR data for 2012 referring to the supervisory trading portfolio are presented for the end of every month of the year. The VaR was calculated using the "extreme value theory". The extreme value theory is used to calculate the VaR in the area of market risk and to estimate the LaR - funding type liquidity at risk.



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*, i.e. 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 interest 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 interest rates vary;
- *yield curve risk,* that is the risk that materialises 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 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 rules and regulations for managing interest rate risk are also contained in the "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 BPS) 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 Investment and Treasury departments, are contained in a monthly 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 and investments Departments are 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 2012, 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 on the interest rate curve, a negative impact of 0.9% of the margin, quantifiable in a profit of Euro 0.92 million;
- for a sudden shock of +100 bps on the interest rate curve, a positive impact of 2.6%, quantifiable in loss of Euro 2.79 million.

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 Euro 55.45 million, 11.6% of the Regulatory Capital;
- for an increase of 200 bps, a reduction of Euro 62.62 million, that is 13.1% 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 (AFS). As concerns these assets, the methods for measuring and controlling price risk utilise 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, just as for the previous year.

As regards the hedge accounting of the flat-rate or structured-rate issues, the Company 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 stabilise the cost of structured issues. There were no new liabilities hedged during 2012.

C. Cash flow hedging

As at the balance sheet date, there is no cash flow hedging, just as for the previous year.

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	**2,047,003**	**2,684,864**	**107,140**	**124,163**	**280,018**	**104,433**	**104,515**	**-**
1.1 Debt securities	31.791	153,137	71,379	81,352	85,334	15,769	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	31.791	153,137	71,379	81,352	85,334	15,769	-	-
1.2 Loans to banks	8,986	31,941	-	-	-	-	-	-
1.3 Loans to customers	2,006,226	2,499,786	35.761	42.811	194.684	88.664	104.515	-
- current accounts	1,410,981	25.794	218	15.363	13.437	-	-	-
- Other loans	595.245	2,473,992	35.543	27,448	181,247	88.664	104.515	-
- With option of early redemption	335.025	2,290,611	20.849	18.775	127,690	86,186	104,471	-
- Other	260,220	183,381	14,694	8,673	53,557	2,478	44	-
2. Cash liabilities	**2,611,178**	**889,448**	**389,746**	**209,078**	**851,123**	**7,446**	**50,338**	**-**
2.1 Due to customers	2,056,540	228,770	158,955	154,480	8,680	-	50,338	-
- current accounts	1,660,910	-	-	-	-	-	-	-
- Other debts	395,630	228,770	158,955	154,480	8,680	-	50,338	-
- With option of early redemption	-	-	-	-	-	-	-	-
- Other	395,630	228,770	158,955	154,480	8,680	-	50,338	-
2.2 Due to banks	554,513	100,070	42,831	3,047	4,118	-	-	-
- current accounts	898	-	-	-	-	-	-	-
- Other debts	553,615	100,070	42,831	3,047	4,118	-	-	-
2.3 Debt securities	125	560.608	187,960	51,551	838,325	7,446	-	-
- With option of early redemption	-	-	-	-	-	-	-	-
- Other	125	560.608	187,960	51,551	838,325	7,446	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- With option of early redemption	-	-	-	-	-	-	-	-
- othe r	-	-	-	-	-	-	-	-
3. Financial derivatives		**(166,211)**	**(74,322)**	**50,000**	**184,685**	**5,848**		**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	(166,211)	(74,322)	50,000	184,685	5,848	-	-
- Options	-	15,000	-	-	(15,000)	-	-	-
+ Long positions	-	15,000	-	-	14,981	-	-	-
+ Short positions	-	-	-	-	(29,981)	-	-	-
- Other derivatives	-	(181,211)	(74,322)	50,000	199,685	5,848	-	-
+ Long positions	-	105,000	70,830	57,538	209,685	5,848	-	-
+ Short positions	-	(286,211)	(145,152)	(7,538)	(10,000)	-	-	-
4 Other off-balance-sheet transactions	**-**	***(5,000)***	**-**	**-**	**-**	**-**	**-**	***(5,000)***
+ Long positions	-	5,000	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	(5,000)

Currency: US Dollar

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	**5,631**	**1,074**	**696**	**661**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	5,630	-	-	-	-	-	-	-
1.3 Loans to customers	1	1,074	696	661	-	-	-	-
- current accounts	1	-	-	-	-	-	-	-
- Other loans	-	1,074	696	661	-	-	-	-
- with option of early redemption	-	1,074	696	661	-	-	-	-
- Other	-	-	-	-	-	-	-	-
2. Cash liabilities	**14,011**	**38,682**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	13,959	-	-	-	-	-	-	-
- current accounts	10,853	-	-	-	-	-	-	-
- Other amounts due	3,106	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	3,106	-	-	-	-	-	-	-
2.2 Due to banks	52	38,682	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other amounts due	52	38,682	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- othe r	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
4 Other off-balance-sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

Currency: Swiss franc

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	**2,891**	**19,340**	**12,276**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Loans to banks	41	-	-	-	-	-	-	-
1.3 Loans to customers	2,850	19,340	12,276	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	2,850	19,340	12,276	-	-	-	-	-
- with option of early redemption	2,850	19,340	12,276	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**9,935**	**25,018**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	5,383	-	-	-	-	-	-	-
- current accounts	4,330	-	-	-	-	-	-	-
- other amounts due	1,053	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	1,053	-	-	-	-	-	-	-
2.2 Due to banks	4,552	25,018	-	-	-	-	-	-
- current accounts	4,551	-	-	-	-	-	-	-
- other amounts due	1	25,018	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- othe r	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
4 Other off-balance-sheet transactions	**-**	***9,609***	**-**	**-**	**-**	**-**	**-**	***(9,609)***
+ Long positions	-	10,106	-	-	-	-	-	-
+ Short positions	-	(497)	-	-	-	-	-	(9,609)

Currency: Japanese 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	**182**	**4,407**	**2,217**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	17	-	-	-	-	-	-	-
1.3 Loans to customers	165	4,407	2,217	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	165	4,407	2,217	-	-	-	-	-
- with option of early redemption	165	4,407	2,217	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**2,940**	**3,434**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	1,271	-	-	-	-	-	-	-
- current accounts	1,271	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	1,669	3,434	-	-	-	-	-	-
- current accounts	1,669	-	-	-	-	-	-	-
- other amounts due		3,434		-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- othe r	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-
4 Other off-balance-sheet transactions	**-**	***1,232***	**-**	**-**	**-**	**-**	**-**	***(1,232)***
+ Long positions	-	1,232	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	(1,232)

Currency: GB pound

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	**939**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	939	-	-	-	-	-	-	-
1.3 Loans to customers	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other loans	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**1,042**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	1,042	-	-	-	-	-	-	-
- current accounts	1,015	-	-	-	-	-	-	-
- other amounts due	27	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	27	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
2.3 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-
4 Other off-balance-sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ Long positions	-	-	-	-	-	-	-	-
+ Short positions	-	-	-	-	-	-	-	-

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	**370**	**28**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-
1.2 Loans to banks	366	-	-	-	-	-	-	-
1.3 Loans to customers	4	28	-	-	-	-	-	-
- current accounts	4	-	-	-	-	-	-	-
- other loans	-	28	-	-	-	-	-	-
- with option of early redemption	-	28	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Cash liabilities	**821**	**54**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	821	-	-	-	-	-	-	-
- current accounts	821	-	-	-	-	-	-	-
- other amounts due	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	54	-	-	-	-	-	-
- current accounts	-	-	-	-	-	-	-	
- other amounts due	-	54	-	-	-	-	-	
2.3 Debt securities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	
- other	-	-	-	-	-	-	-	
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with option of early redemption	-	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-
4 Other off-balance-sheet transactions	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
+ 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.

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 "Finance Department Policy" and 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**	**8,066**	**939**	**6,806**	**58**	**34,507**	**340**
A.1	Debt securities	4	-	-	-	-	-
A.2	Equities	-	-	-	-	-	-
A.3	Loans to banks	5,630	939	17	30	41	336
A.4	Loans to customers	2,432	-	6,789	28	34,466	4
A.5	Other financial assets	-	-	-	-	-	-
B.	**Other assets**	**238**	**68**	**26**	**29**	**416**	**194**
C.	**Financial liabilities**	**52,693**	**1,042**	**6,374**	**433**	**34,954**	**442**
C.1	Due to banks	38,735	-	5,103	-	29,571	54
C.2	Due to customers	13,958	1,042	1,271	433	5,383	388
C.3	Debt securities	-	-	-	-	-	-
C.4	Other financial liabilities	-	-	-	-	-	-
D.	**Other liabilities**	**-**	**-**	**-**	**-**	**-**	**-**
E.	**Financial derivatives**	**44,404**	**(14)**	**(440)**	**350**	**(17)**	**52**
	- Options	-	-	-	-	-	-
	+long positions	-	-	-	-	-	-
	+short positions	-	-	-	-	-	-
	- Other derivatives	44,404	(14)	(440)	350	(17)	52
	+long positions	58,308	1,409	1,959	350	11,864	124
	+short positions	(13,904)	(1,423)	(2,399)	-	(11,881)	(72)
Total assets		**66,612**	**2,416**	**8,791**	**437**	**46,787**	**658**
Total Liabilities		**66,597**	**2,465**	**8,773**	**433**	**46,835**	**514**
Difference (+/-)		**15**	**49**	**18**	**4**	**48**	**144**

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 Supervisory trading portfolio: end of year and interim notional values

Underlying assets / Derivative type *(thousands of Euro)*	**31.12.2012**		**31.12.2011**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	373,536	23,920	507,781	-
a) Options	19,549	-	20,000	-
b) Swap	353,908	-	487,742	-
c) Forward	79	170	39	-
d) Futures	-	23,750	-	-
e) Others	-	-	-	-
2. Equity securities and share indexes	-	2,017	-	7,963
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	-	2,017	-	-
d) Futures	-	-	-	7,963
e) Others	-	-	-	-
3. Currency and gold	52,071	-	39,616	-
a) Options	-	-	-	-
b) Swap	-	-	-	-
c) Forward	52,071	-	39,616	-
d) Futures	-	-	-	-
e) Others	-	-	-	-
4. Goods	-	-	-	-
5. Other assets	-	-	-	-
Total	**425,607**	**25,937**	**547,397**	**7,963**
Average values	**539,795**	**19,230**	**235,845**	**8,732**

A.2 Banking portfolio: 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)*	**31.12.2012**		**31.12.2011**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
1. Debt securities and interest rates	474,439	-	653,939	-
a) Options	25,538	-	25,538	-
b) Swaps	448,901	-	628,401	-
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	**474,439**	**-**	**653,939**	**-**
Average values	**565,841**	**-**	**643,758**	**-**

A.3 Financial derivatives: positive gross fair value – breakdown by product

Underlying assets / Derivative type *(thousands of Euro)*	Positive fair value			
	31.12.2012		31.12.2011	
	Over the counter	Central counterparts	Over the counter	Central counterparts
A. Supervisory trading portfolio	**8,820**	**11**	**12,397**	**-**
a) Options	500	-	863	-
b) Interest rate swap	8,067	-	11,490	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	253	11	44	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging - banking book	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Other derivatives - banking book	**15,828**	**-**	**14,878**	**-**
a) Options	2	-	67	-
b) Interest rate swap	15,826	-	14,811	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**24,648**	**11**	**27,275**	**-**

A.4 Financial derivatives: negative gross fair value – breakdown by product

Underlying assets / Derivative type *(thousands of Euro)*	**Negative fair value**			
	31.12.2012		**31.12.2011**	
	Over the counter	**Central counterparts**	**Over the counter**	**Central counterparts**
A. Supervisory trading portfolio	**11,966**	**-**	**14,797**	**-**
a) Options	-	-	-	-
b) Interest rate swap	11,616	-	14,778	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	350	-	19	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
B. Hedging - banking book	**-**	**-**	**-**	**-**
a) Options	-	-	-	-
b) Interest rate swap	-	-	-	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
C. Other derivatives - banking book	**457**	**-**	**608**	**-**
a) Options	-	-	-	-
b) Interest rate swap	457	-	608	-
c) Cross currency swap	-	-	-	-
d) Equity swap	-	-	-	-
e) Forward	-	-	-	-
f) Futures	-	-	-	-
g) Other	-	-	-	-
Total	**12,423**	**-**	**15,405**	**-**

A.5 OTC financial derivatives: supervisory trading portfolio - notional values, gross positive and negative fair values for counterparties – contracts that do not come under offsetting agreements

Contracts that do not come under offsetting agreements *(thousands of Euro)*		Governments and central banks	Other public entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1)	**Debt securities and interest rates**	**-**	**-**	**233,011**	**161,904**	**-**	**-**	**59**
	- notional value	-	-	219,523	153,954	-	-	59
	- positive fair value	-	-	986	7,581	-	-	-
	- negative fair value	-	-	11,616	-	-	-	-
	- future exposure	-	-	886	369	-	-	-
2)	**Equity securities and share indexes**	**-**	**-**	**-**		**-**	**-**	**-**
	- notional value	-	-	-		-	-	-
	- positive fair value	-	-	-		-	-	-
	- negative fair value	-	-	-		-	-	-
	- future exposure	-	-	-		-	-	-
3)	**Currency and gold**	**-**	**-**	**45,088**	**-**	**-**	**8,065**	**-**
	- notional value	-	-	44,163	-	-	7,908	-
	- positive fair value	-	-	195	-	-	58	-
	- negative fair value	-	-	330	-	-	20	-
	- future exposure	-	-	400	-	-	79	-
4)	**Other values**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	- notional value	-	-	-	-	-	-	-
	- positive fair value	-	-	-	-	-	-	-
	- negative fair value	-	-	-	-	-	-	-
	- future exposure	-	-	-	-	-	-	-

A.6 OTC financial derivatives: supervisory trading portfolio - 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.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 entities	Banks	Financial companies	Insurance companies	Non-financial companies	Other entities
1) Debt securities and interest rates	**-**	**-**	**486,505**	**5,380**	**-**	**-**	**-**
- notional value	-	-	469,439	5,000	-	-	-
- positive fair value	-	-	15,473	355	-	-	-
- negative fair value	-	-	457	-	-	-	-
- future exposure	-	-	1,136	25	-	-	-
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 OTC financial derivatives: notional values

Underlying / Residual life *(thousands of Euro)*		Under 1 year	From 1 to 5 years	Over 5 years	Total
A.	**Supervisory trading portfolio**	**250,773**	**136,693**	**38,141**	**425,607**
A. 1	Financial derivatives on debt securities and interest rates	198,702	136,693	38,141	373,536
A. 2	Financial derivatives on equity securities and share indexes	-	-	-	-
A. 3	Financial derivatives on exchange rates and gold	52,071	-	-	52,071
A. 4	Financial derivatives on other stocks	-	-	-	-
B.	**Banking book**	**253,906**	**214,685**	**5,848**	**474,439**
B. 1	Financial derivatives on debt securities and interest rates	253,906	214,685	5,848	474,439
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 31/12/2012		**504,679**	**351,378**	**43,989**	**900,046**
Total 31/12/2011		**518,792**	**571,044**	**111,500**	**1,201,336**

A.10 OTC financial derivatives: counterparty risk/financial risk – Internal models

The Company 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 (positive and negative) – 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 (positive and negative) – Contracts that 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.

Section 4 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 utilisation risk, that is an unexpected, greater than anticipated utilisation 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, which is the risk that the bank is not able to dispose of assets thereby generating losses due to market conditions; these risks are managed by the persons in charge of the various trading portfolios and, as a result, are measured and monitored according to econometrics for market risk management;
- liquidity concentration risk which can be broken down in turn into:
  - flow concentration risk, i.e. the concentration risk of inflows and outflows of expected cash - and the resulting imbalances or surpluses - over predefined expiry bands; in this case there is inadequate discontinuity in the expiry dates with potential negative impacts on the exposure to liquidity risk.
  - funding contingency risk, i.e. the risk of dependence on a single market or an excessively limited number of markets/counterparts or concentration on certain technical forms, to the extent that the withdrawal of funds by a limited number of counterparts, or the loss of a funding channel could lead to a substantial review of the controls necessary to deal with liquidity risk.
- 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 organisational 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 organisational processes and interventions undertaken to restore standard conditions in liquidity management in addition to providing a description of indicators to determine any critical situations.

In particular, the policy concerns the innovations in matters of governance and liquidity risk management contained in Bank of Italy Circular 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 organisation 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 organisational 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 organisational 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;
- centralise 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 pressurised 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. More specifically, the following daily balances are used: mandatory reserve at the Bank of Italy, interbank deposits, bond issues, securitisations, 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 securities that can be readily liquidated
- 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 utilisation of credit lines granted
- increase haircut of securities that can be readily liquidated
- increasing haircut on cash loans

Moreover, the organisational 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 starting from 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 centralised 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 2012, 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	**1,354,306**	**24,812**	**3,502**	**155,569**	**140,326**	**91,489**	**199,467**	**1,495,054**	**1,593,384**	**31,941**
A.1 Treasury securities	-	-	-	-	15,237	42,624	89,978	111,500	3,500	-
A.2 Other debt securities	1	-	-	30	31,732	15,994	23,070	142,274	21,269	-
A.3 UCITS units	49,064	-	-	-	-	-	-	-	-	-
A.4 Loans	1,305,241	24,812	3,502	155,539	93,357	32,871	86,419	1,241,280	1,568,615	31,941
- Banks	4,116	-	-	818	-	-	-	-	-	31,941
- Customers	1,301,125	24,812	3,502	154,721	93,357	32,871	271,214	1,241,280	1,568,615	-
Cash liabilities	**2,086,903**	**88,650**	**40,839**	**110,696**	**295,692**	**316,638**	**420,720**	**1,517,836**	**124,383**	**-**
B.1 Deposits and current accounts	2,028,730	17,047	10,405	55,128	111,861	156,035	153,104	8,659	-	-
- Banks	30,538	10,000	-	20,000	10,000	-	-	-	-	-
- Customers	1,998,192	7,047	10,405	35,128	101,861	156,035	153,104	8,659	-	-
B.2 Debt securities	21	40	29,974	30	138,054	156,957	264,616	1,005,177	32,260	-
B.3 Other liabilities	58,152	71,563	460	55,538	45,777	3,646	3,000	504,000	92,123	-
Off-balance-sheet transactions	**(160,673)**	**(12,211)**	**140**	**(9,255)**	**(35,964)**	**3,077**	**(3,381)**	**15,090**	**152,344**	**10**
C.1 Financial derivatives with exchange of principal	429	(21,313)	140	(9,255)	(35,968)	1,509	(522)	9,892	10,000	-
- Long positions	768	1,072	166	-	380	2,291	276	10,389	10,000	-
- Short positions	(339)	(22,385)	(26)	(9,255)	(36,348)	(782)	(798)	(497)	-	-
C.2 Financial derivatives without exchange of principal	(3,049)	22	-	-	-	1,567	(3,115)	(3,609)	2,449	-
- Long positions	8,567	50	-	-	-	1,608	394	2,071	2,746	-
- Short positions	(11,616)	28	-	-	-	41	(3,509)	(5,680)	(297)	-
C.3 Due from deposits and loans	(5,000)	5,000	-	-	-	-	-	-	-	-
- Long positions	-	5,000	-	-	-	-	-	-	-	-
- Short positions	(5,000)	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	(153,053)	4,080	-	-	4	1	256	8,807	139,895	10
- Long positions	10	4,080	-	-	4	1	256	8,807	139,895	488
- Short positions	(153,063)	-	-	-	-	-	-	-	-	(478)
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C. 8 Credit derivatives without trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Illustration of financial assets that were subject to securitisation transactions where the bank undersigned all liabilities issued by SPV (so-called self-securitisation) upon issue.

In November 2008, September 2011 and July 2012, the Company carried out three securitisation transactions in which it subscribed to all the liabilities issued by the SPV upon issue. Financial assets subject to securitisation transactions are listed below:

	VOBA Finance 2 S.r.l.
Bank interest in the SPV	0.00%
Loans disposal date	01.11.2008
Type of loans transferred	Mortgage loans
Status of loans transferred	Performing
Guarantees on loans transferred	Mortgages from first to sixth degree
Geographic area of loans transferred	Northern Italy
Business of debtors transferred	Private individuals and companies
Number of loans transferred	1,845
Price of loans transferred (Euro)	Euro 304,128,167.83
Nominal value of loans transferred including accruals (Euro)	Euro 304,128,167.83

	VOBA Finance 3 S.r.l.
Bank interest in the SPV	0.00%
Loans disposal date	01.09.2011
Type of loans transferred	Mortgage loans
Status of loans transferred	Performing
Guarantees on loans transferred	Mortgages from first to sixth degree
Geographic area of loans transferred	Northern Italy
Business of debtors transferred	Private individuals and companies
Number of loans transferred	3,188
Price of loans transferred (Euro)	Euro 387,269,164.82
Nominal value of loans transferred including accruals (Euro)	Euro 387,269,164.82

	VOBA Finance 4 S.r.l.
Bank interest in the SPV	0.00%
Loans disposal date	01.07.2012
Type of loans transferred	Mortgage loans and unsecured loans
Status of loans transferred	Performing
Guarantees on loans transferred	Mortgages from first to sixth degree
Geographic area of loans transferred	Northern Italy
Business of debtors transferred	Private individuals and companies
Number of loans transferred	3,714
Price of loans transferred (Euro)	Euro 601,313,690.21
Nominal value of loans transferred including accruals (Euro)	Euro 601,313,690.21

The characteristics of the subscribed ABS securities relative to the two self-securitisations are shown below:

VOBA Finance 2 S.r.l.			
Tranche	**Rating S&P/Moody's**	**Percentage**	**Total (in Euro)**
Class A	AA/A2	80.60%	245,150,000
Class B	NR/Ba1	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	Rating S&P/Moody's	Percentage	Total (in Euro)
Class A	AA+/A2	25.73%	102,500,000
Class B	AA+/A2	59.28%	236,100,000
Class C	-	14.99%	59,700,000
Total		**100.00%**	**398,300,000**

VOBA Finance 4 S.r.l.			
Tranche	**Rating S&P/Moody's**	**Percentage**	**Total (in Euro)**
Class A	A/A2	72.22%	443,000,000
Class B	NR	27.78%	170,400,000
Total		**100.00%**	**613,400,000**

2. Time distribution by residual contract duration of financial assets and liabilities. Currency: U.S. 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	**5,631**	**72**	**55**	**606**	**338**	**694**	**668**			
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	5	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	5,631	72	55	606	338	694	663	-	-	-
- Banks	5,630	-	-	-	-	-	-	-	-	-
- Customers	1	72	55	606	338	694	663	-	-	-
Cash liabilities	**14,010**	**-**	**-**	**2,274**	**36,380**	**-**	**-**	**-**	**-**	**-**
B.1 Deposit and current accounts	13,958	-	-	2,274	36,380	-	-	-	-	-
- Banks	-	-	-	2,274	36,380	-	-	-	-	-
- Customers	13,958	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	52					-	-	-	-	-
Off-balance-sheet transactions	**1**	**11**	**(133)**	**9,240**	**35,873**	**(590)**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	1	11	(133)	9,240	35,873	(590)	-	-	-	-
- Long positions	1	12,331	-	9,240	36,223	512	-	-	-	-
- Short positions	-	(12,320)	(133)	-	(350)	(1,102)	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C. 8 Credit derivatives without trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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	**2,709**	**2,156**	**435**	**5,314**	**11,644**	**12,300**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	2,709	2,156	435	5,314	11,644	12,300	-	-	-	-
- Banks	41	-	-	-	-	-	-	-	-	-
- Customers	2,668	2,156	435	5,314	11,644	12,300	-	-	-	-
Cash liabilities	**9,935**	**17,147**	**4,142**	**3,728**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	9,934	17,147	4,142	3,728	-	-	-	-	-	-
- Banks	4,551	17,147	4,142	3,728	-	-	-	-	-	-
- Customers	5,383	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	1	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**9,592**	**(4,970)**	**(4,142)**	**(497)**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	(17)	-	-	-	-	-	-	-	-
- Long positions	-	11,864	-	-	-	-	-	-	-	-
- Short positions	-	(11,881)	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	9,609	(4,970)	(4,142)	(497)	-	-	-	-	-
- Long positions	-	10,106	-	-	-	-	-	-	-	-
- Short positions	-	(497)	(4,970)	(4,142)	(497)	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C. 8 Credit derivatives without trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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	**155**	**182**	**95**	**592**	**3,520**	**2,244**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	155	182	95	592	3,520	2,244	-	-	-	-
- Banks	16	-	-	-	-	-	-	-	-	-
- Customers	139	182	95	592	3,520	2,244	-	-	-	-
Cash liabilities	**2,940**	**1,232**	**2,201**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	2,940	1,232	2,201	-	-	-	-	-	-	-
- Banks	1,669	1,232	2,201	-	-	-	-	-	-	-
- Customers	1,271	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**1,136**	**(344)**	**-**	**(1,232)**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	96	(344)	-	-	-	-	-	-	-
- Long positions	-	1,959	-	-	-	-	-	-	-	-
- Short positions	-	(2,055)	(344)	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Due from deposits and loans	-	1,232	-	-	(1,232)	-	-	-	-	-
- Long positions	-	1,232	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	(1,232)	-	-	-	-	-
C.4 Irrevocable commitments to distribute funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C. 8 Credit derivatives without trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

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	**1,305**	**27**	**4**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Treasury securities	-	-	-	-	-	-	-	-	-	-
A.2 Other debt securities	-	-	-	-	-	-	-	-	-	-
A.3 UCITS units	-	-	-	-	-	-	-	-	-	-
A.4 Loans	1,305	27	4	-	-	-	-	-	-	-
- Banks	1,305	-	-	-	-	-	-	-	-	-
- Customers	-	27	4	-	-	-	-	-	-	-
Cash liabilities	**1,863**	**-**	**-**	**54**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	1,863	-	-	54	-	-	-	-	-	-
- Banks	-	-	-	54	-	-	-	-	-	-
- Customers	1,863	-	-	-	-	-	-	-	-	-
B.2 Debt securities	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-balance-sheet transactions	**-**	**39**	**350**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	39	350	-	-	-	-	-	-	-
- Long positions	-	1,508	376	-	-	-	-	-	-	-
- Short positions	-	(1,469)	(26)	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of capital	-	-	-	-	-	-	-	-	-	-
- 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	-	-	-	-	-	-	-	-	-	-
C.6 Financial guarantees received	-	-	-	-	-	-	-	-	-	-
C.7 Credit derivatives with trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C. 8 Credit derivatives without trading of capital	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-

Section 4 Operational risks

QUALITATIVE INFORMATION

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, organisational, 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 organisation 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. 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 adopted the Traditional Standardised Approach, starting from 31 December 2012, in compliance with the regulatory provisions of Basel II. This provides that the overall capital requirement calculation equals the average of the so-called TSA contribution, which refers to the most recent three observations made at the end of the financial year (31 December) on an annual basis. The TSA contribution is obtained from the sum of contributions from the individual regulatory business lines (BLs) each year; these sums are calculated by applying the regulatory coefficients (known as 'β' or risk factors) as weighting factors to the relevant indicator. These coefficients were estimated by the Supervisory body on the basis of the relationship between historically recorded losses by the banking industry in that particular BL and the related economic indicator. The Bank of Italy assumes that the gross income is the significant indicator, as identified in the banking margin (income statement item 120).

Managing the control processes

The monitoring of operating risks is guaranteed by adoption of an internal control system, which, along with the supervisory provisions, is organised into three levels, with each level governing the specific aspects pursuant to its role, the functions prepared for the line controls, risk management controls, compliance controls and internal control activities:

- 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;
- audits, performed by the internal auditing office as part of its direct audit and remote monitoring duties;

In addition, monitoring of the operating risks uses the results from the monitoring and analyses of operating losses contained in the periodic report drawn up by the Risk management department and related discussions by the operating risk committee.

<u>Line controls</u>

The first level controls are aimed at ensuring the correct performance of the transactions and are carried out by the production business units or as part of middle and back-office operations, or through computer procedures/systems. They are the first line of defence in the risk monitoring system.

The line controls system, extended to all organisational units, has been operative since 2005. It is governed by the line controls manual and involves the use of customised checklists for each organisational 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 organisational or operating procedures change.

<u>Specialised controls</u>

The second level controls are carried out by different structures to the production units, with the aim of:

- agreeing on the definition of the risk measurement methods, checking compliance with the limits assigned, including in terms of consistency of the work with the pre-defined risk-reward targets,
- agreeing on the definition of the risk compliance measurement/evaluation methods, identifying suitable procedures to prevent the risks found and requesting their adoption,
- confirming/declaring the company accounting information in accordance with the provisions of the law.

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.

The Risk Management department (as the department that manages risk), the Compliance area (which incorporates the regulatory compliance department and anti-money laundering department) and the Manager in Charge carry out a portion of their work within the scope of the second level controls. In order to ensure the effectiveness of the performance of their duties, the departments that carry out the second level controls must have the necessary independence, authority and professional competence.

Audits

The third level controls are carried out by different structures to the production units, and are aimed at identifying anomalous trends, breaches of procedures/regulations and evaluating the function of the entire internal control system.

The third level controls are carried out by the Internal Audit office in the Banca Popolare dell'Alto Adige.

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 2012 recorded 225 new reports with a gross loss of Euro 495,071, of which 70.7% of cases were due to internal or external fraud (amounting to 17.1% of the value), 4.4% from processing errors (6.9% of the value), 24.9% due to other factors, forged banknotes, system errors, and legal disputes etc. (75.9% of the value).

By way of comparison, 189 events occurred in 2011, corresponding to gross losses equal to 332,868 Euro.

15 cases were reported to the DIPO in 2012 (reporting threshold Euro 5,000) with a gross loss of Euro 378,616.

PART F INFORMATION ON CAPITAL

Section 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 capitalisation, 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 optimisation 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 reserves and the net profit for the year, as at 31 December 2012, amounts to 619.1 million, up 14.2% on the previous year's figure of 541.9 million (due to a recalculation as a result of the retroactive application of IAS 19).

B. QUANTITATIVE INFORMATION

B.1 Company's shareholders' equity assets: breakdown

Items/Amounts *(thousands of Euro)*	31.12.2012	31.12.2011
1. Capital	**76,275**	**69,341**
2. Share premiums	**202,459**	**145,773**
3. Reserves	**247,359**	**239,465**
- from profit	217,217	209,322
a) legal	106,700	104,800
b) extraordinary	95,607	89,930
c) treasury shares	-	-
d) other	14,910	14,592
- other	30,142	30,143
4 Capital instruments	-	**-**
5. (Treasury shares)	-	**-**
6. Valuation reserves	**71,387**	**69,019**
- Available-for-sale financial assets	(447)	(5,648)
- Tangible assets	-	-
- Intangible assets	-	-
- Foreign investment hedges	-	-
- Cash flow hedges	-	-
- Exchange differences	-	-
- Discontinued operations	-	-
- Actuarial profit (loss) on retirement plans with defined benefits	- (2,615)	(*) 218
- Shares of valuation reserves relating to subsidiaries valued at equity	-	-
- Special revaluation laws	74,449	74,449
7. Profit (loss) for the year	**21,583**	**(*) 18,296**
Total	**619,063**	**541,894**

(*) Amount restated following the retrospective application of the new version of the standard “IAS 19 - Employee benefits”.

B.2 Valuation reserves of financial assets available for sale: breakdown

Asset/Value *(thousands of Euro)*	31.12.2012		31.12.2011	
	Positive reserve	Negative reserve	Positive reserve	Negative reserve
1. Debt securities	1,348	(453)	225	(3,282)
2. Equities	-	(11)	-	(12)
3. UCITS units	168	(1,499)	293	(2,872)
4. Loans	-	-	-	-
Total	**1,516**	**(1,963)**	**518**	**(6,166)**

B.3 Valuation reserves of financial assets available for sale: annual changes

(thousands of Euro)		Debt securities	Equities	UCITS units	Loans
1.	**Opening balance**	**(3,056)**	**(12)**	**(2,580)**	**-**
2.	**Positive variations**	**4,203**	**1**	**1,824**	**-**
2.1	Increases in fair value	2,476	1	1,459	-
2.2	Reallocation to income statement				
	of negative reserves	1,727	-	365	-
	- from impairment	-	-	-	-
	- from disposals	1,727	-	365	-
2.3	Other changes	-	-	-	-
3.	**Negative variations**	**252**	**-**	**575**	**-**
3.1	Decrease in fair value	27	-	376	-
3.2	Impairment adjustments	-	-	-	-
3.3	Reallocation to income statement	-	-	-	-
	of positive reserves: from disposals	225	-	199	-
3.4	Other changes	-	-	-	-
4	**Closing balance**	**895**	**(11)**	**(1,331)**	**-**

Section 2 Capital and adequacy ratios

Capital and adequacy ratios are calculated in conformity with the Bank of Italy provisions in the Circular no. 263 of 27 December 2006 (“New regulations for the prudential supervision of banks”) and with the Circular no. 155 of 18 December 1991 (“Instructions for compiling reports on regulatory capital and on prudential ratios”), as amended.

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 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 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 recognised 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 belonging to the European Union included in the “Available-for-sale financial assets”, completely neutralise both the pluses and the minuses, as if the securities were measured at cost.
b) fully deduct the capital loss from Core 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 Core 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)	31.12.2012	31.12.2011
A. Tier I capital before application of prudential filters	**492,796**	**418,218**
B. Tier I capital prudential filters:	(5,232)	(6,166)
B.1 Positive IAS/IFRS prudential filters (+)	-	-
B.2 Negative IAS/IFRS prudential filters (-)	(5,232)	(6,166)
C. Tier I capital gross of deductible elements (A+B)	**487,564**	**412,052**
D. Elements deductible from Tier I capital	-	-
E. Total Core Tier 1 capital (C-D)	**487,564**	**412,052**
F. Tier II capital before application of prudential filters	**75,966**	**75,226**
G. Tier II capital prudential filters	(758)	(518)
G.1 Positive IAS/IFRS prudential filters (+)	-	-
G.2 Negative IAS/IFRS prudential filters (-)	(758)	(518)
H. Tier II capital gross of deductible elements (F+G)	**75,208**	**74,708**
I. Elements deductible from Tier II capital	-	-
L. Total Tier 2 capital (Tier 2) (H-J)	**75,208**	**74,708**
M. Elements deductible from total Tier I and Tier II capital	-	
N. Regulatory Capital (E + L - M)	**562,772**	**486,760**
O. Tier 3 capital	-	-
P. Regulatory capital including Tier 3 (N+O)	**562,772**	**486,760**

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

In accordance with Chapter 2, paragraph 7, part F of Circular 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	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011
A. RISK ASSETS				
A.1 Credit risk and counterparty risk	**6,206,175**	**5,731,233**	**4,227,652**	**4,146,994**
1. Standard method	6,206,175	5,731,233	4,227,652	4,146,994
2. Method based on internal ratings	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. REGULATORY CAPITAL REQUIREMENTS				
B.1 Credit risk and counterparty risk			**338,212**	**331,760**
B.2 Market risk			**2,566**	**3,751**
1. Standard method			2,566	3,751
2. Internal models			-	-
3. Concentration Risk			-	-
B.3 Operational risk			**23,056**	**26,757**
1. Basic method			-	26,757
2. Standard method			23,056	-
3. Advanced method			-	-
B.4 Other prudential requirements			**-**	**-**
B.5 Other calculation items			**-**	**-**
B.6 Total prudential requirements (B1+B2+B3+B4+B5)			**363,834**	**362,268**
C. RISK ASSETS AND ADEQUACY RATIOS				
C.1 Weighted risk assets			4,547,930	4,528,344
C.2 Tier 1 capital/Weighted risk assets (Core Tier I capital ratio)			10.72%	9.10%
C.3 Regulatory capital including Tier 3/ Weighted risk assets (Total capital ratio)			12.37%	10.75%

Starting from the reports referring to 31 December 2012, the Company calculates the regulatory capital required in terms of market risk in accordance with the standard method. The basic method had been used previously.

PART G BUSINESS COMBINATIONS CONCERNING COMPANIES OR BUSINESS BRANCHES

Section 1 Transactions performed during the year

No business combinations were made during the financial year

Section 2 Business combinations made after the close of the financial year

There were no significant business combinations transacted after the close of the financial year

Section 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 summarises 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)	**31.12.2012**
Directors	699
Statutory Auditors	379
Key management personnel	3.450
Total	**4,528**

Remuneration of key management personnel *(thousands of Euro)*	**31.12.2012**
Key management personnel	
of which	
- short-term benefits	3,006
- post-retirement benefits	298
- other long-term employee benefits	146
Total	**3,450**

2. Disclosure on transactions with related parties

Based on the specifications of IAS 24, applied to the bank's organisational 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
31.12.2012	3,470	-	-	-	-	-
Impact	0.07%	0.00%	0.00%	0.00%	0.00%	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
2012	95	-	-	-	-	-
Impact	0.05%	0.00%	0.00%	0.00%	0.00%	0.00%

Transactions with associated companies

(thousands of Euro)	Loans granted	Subscribed bonds	Loans obtained	Bonds issued	Guarantees	Commitments
31.12.2012	5,734	-	6	-	-	-
Impact	-	0.00%		0.00%	0.00%	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
2012	164	-	-	-	14	-
Impact	0.09%	0.00%	0.00%	0.00%	0.02%	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		2,907	70,468	1,577	8,838	-	191	83,981
Commitments		2,670	41,511	1,524	8,207	-	159	54,070
	Impact	*0.05%*	*0.83%*	*0.03%*	*0.16%*	*0.00%*	*0.00%*	*1.08%*
Credit commitments		-	15,488	27	118	-	-	15,633
	Impact	*0.00%*	*4.41%*	*0.01%*	*0.03%*	*0.00%*	*0.00%*	*4.45%*
Direct deposits		1,335	14,929	21	1,531	-	2,910	20,727
	Impact	*0.03%*	*0.34%*	*0.00%*	*0.04%*	*0.00%*	*0.07%*	*0.48%*
Indirect deposits		213	11,074	44	71	3	120	11,525
	Impact	*0.01%*	*0.57%*	*0.00%*	*0.00%*	*0.00%*	*0.01%*	*0.59%*
Interest Receivable		54	1,403	37	226	-	3	1,723
	Impact	*0.03%*	*0.74%*	*0.02%*	*0.12%*	*0.00%*	*0.00%*	*0.91%*
Interest paid		25	368	1	12	-	26	432
	Impact	*0.05%*	*0.73%*	*0.00%*	*0.02%*	*0.00%*	*0.05%*	*0.86%*
Commissions and other income		4	311	4	37	-	1	
	impact	*0.01%*	*0.42%*	*0.01%*	*0.05%*	*0.00%*	*0.00%*	

PART I SHARE-BASED PAYMENT ARRANGEMENTS

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	Companies	Finance	Other	Total
Interest margin	46,301	71,599	7,540	(7,295)	118,145
Net commissions	22,479	40,849	-2,486	4,403	65,246
Financial margin	-	-	8,737	-	8,737
Banking margin	**68,780**	**112,449**	**13,791**	**-2,892**	**192,128**
Net adjustments for value impairment	(3,044)	(23,605)	(1,646)	0	(28,295)
Net income from financial management	**65,736**	**88,844**	**12,145**	**-2,892**	**163,834**
Administrative expenses	-	-	-	(124,754)	(124,754)
Provisions for risks and charges	-	-	-	(1,096)	(1,096)
Amortisation and depreciation on tangible and intangible assets	-	-	-	(14,803)	(14,803)
Other operating costs/income	-	-	-	12,602	12,602
Profit (Loss) on shareholdings / from disposal of investments	-	-	-	(245)	(245)
Profit (Loss) from current operations before tax	**65,736**	**88,844**	**12,145**	**-131,189**	**35,536**

Analysis by business segments: balance sheet figures

(thousands of Euro)	Private individuals	Companies	Finance	Other	Total
Due from banks	-	-	156,512	-	156,512
Loans to customers	1,730,300	3,076,032	202,583	7,572	5,016,488
Equity shares	-	-	479,475	-	479,475
Due to banks	-	-	771,855	-	771,855
Direct deposits	3,272,577	681,610	370,020	30,430	4,354,637
- Due to customers	1,864,617	623,900	213,920	-	2,702,436
- Securities issued	1,407,960	57,710	156,100	30,430	1,652,201
Indirect deposits	1,210,368	27,782	-	2,895	1,241,045

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	156,512	-	156,512
Loans to customers	3,836,388	1,180,099	5,016,488
Equity shares	479,475	-	479,475
Due to banks	771,855	-	771,855
Direct deposits	3,541,758	812,879	4,354,637
- Due to customers	2,193,610	508,827	2,702,436
- Securities issued	1,348,148	304,052	1,652,201
Indirect deposits	944,760	296,285	1,241,045

Analysis by geographical area: income statement figures

(thousands of Euro)	Trentino and Alto Adige	Veneto and Friuli Venezia Giulia	Total
Interest margin	90,885	27,260	118,145
Net commissions	50,287	14,959	65,246
Financial margin	8,737	-	8,737
Banking margin	**149,909**	**42,219**	**192,128**
Net adjustments for value impairment	(23,381)	(4,914)	(28,295)
Net income from financial management	**126,528**	**37,306**	**163,834**
Administrative expenses	(102,746)	(22,009)	(124,754)
Provisions for risks and charges	(1,096)	-	(1,096)
Amortisation and depreciation on tangible and intangible assets	(10,632)	(4,171)	(14,803)
Other operating costs/income	10,379	2,223	12,602
Profit (Loss) on shareholdings / from disposal of investments	(245)	-	(245)
Profit (Loss) from current operations before tax	**22,187**	**13,349**	**35,536**

2. ANNEXES TO THE COMPANY'S FINANCIAL STATEMENTS

Disclosure in accordance with art. 149 – duodecies of Regulation no. 11971 of 14 May 1999 (Issuers' Regulation)

The fees of the 2012 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	30
Total			78

The values do not include VAT and accessory expenses.

Financial Statements of the 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 no. 18
Share capital of Euro 30,000, fully paid in
Listed in the Bolzano Business Register
Tax code 03340170277
A company under the management and coordination of
Banca Popolare dell'Alto Adige Soc. Coop. p.a. with registered office in Bolzano - Italy

FINANCIAL STATEMENTS AS AT 31/12/2012

BALANCE SHEET

(amounts in Euro)	**31.12.2012**	**31.12.2011**
ASSETS		
A. Share capital not paid in	**-**	**-**
B. Fixed assets		
I. Intangible assets	-	-
II. Tangible assets	286,829	462,593
III. Financial investments	2,549,889	
Total fixed assets (B)	**2,836,718**	**12,713,927**
C. Current assets		
I. Inventories	83,654	508,505
II. Loans	389,168	350,827
III. Current financial assets	-	-
IV. Cash and cash equivalents	209	226
Total current assets (C)	473,031	859,558
D. Prepayments and Accrued Income	**14,426**	3,834
TOTAL ASSETS	**3,324,175**	**13,577,319**

FINANCIAL STATEMENTS AS AT 31/12/2012
BALANCE SHEET

LIABILITIES		31.12.2012	31.12.2011
A.	**Shareholders' Equity**		
I.	*Capital*	30,000	30,000
IV.	*Legal reserve*	-	-
VII.	*Other reserves*	(75,000)	(203,100)
VIII.	*Profits/losses carried over*	480,603	-
IX.	*Profit (loss) for the year*	(1,435,426)	480,603
	Total	**(999,823)**	**307,503**
B.	**Provisions for risks and charges**	**465,000**	**972,705**
C.	**Staff severance indemnities**	**-**	**67,450**
D.	**Payables**		
3.	Debts payable to shareholders for loans	3,469,543	11,480,224
5.	Due to other financial institutions	294,890	294,890
6.	Advances	-	35,000
7.	Trade payables	50,309	270,192
12.	Tax payable	24,212	37,557
13.	Debts owed to social security institutions.	-	8,676
14.	Other amounts due	18,409	89,874
	Total	**3,857,363**	**12,216,413**
E.	**Accrued expenses and deferred income**	**1,635**	**13,248**
TOTAL LIABILITIES		**3,324,175**	**13,577,319**

FINANCIAL STATEMENTS AS AT 31/12/2012
INCOME STATEMENT

		31.12.2012	31.12.2011
(in Euro)			
A.	Production value	1,027,547	2,132,214
B.	Production costs	(1,825,594)	2,224,130
	Difference between production value and costs (A-B)	**(798,047)**	**(91,916)**
C.	Financial income and expense	(637,380)	502,965
D.	Value adjustments pertaining to investments	-	73,000
E.	Extraordinary items	1	
	Income before taxes A-B+/-C+/-D+/-E)	**(1,435,426)**	**484,050**
22.	Income taxes for the financial year, current, differed and prepaid	-	3,447
23.	**Profit (loss) for the year**	**(1,435,426)**	**480,603**