2011 ANNUAL REPORT

- CONTENTS -

BOARD OF DIRECTORS
Meeting of 27 March 2012

Directors' report and financial statements as at and for the year ended 31 December 2011

Dear shareholders,

Before presenting the bank's financial statements as at and for the year ended 31 December 2011, we feel it necessary to discuss the further serious worsening in the general economic situation during the year, which has led to a generalised loss of confidence in the financial markets of many European states, including Italy.

Last year, we commented in the notes to the financial statements on how the financial crisis had re-ignited in the Euro zone. The upset was initially seen in Greece, which had hidden the full extent of its financial difficulties for some time, and then spread to Ireland, which paid the consequences of its banks' significant malaise, and on to Portugal, causing considerable difficulties with its foreign trade balance.

Tensions in the financial markets grew from summer 2011 affecting Spain, where the fall in house prices triggered the well-known difficulties of the banks, and Italy, burdened by high public debt and weak medium term growth prospects.

The financial markets, which had never considered the possibility that a sovereign issuer in the Euro zone could become insolvent, began to seriously consider the issue, critically affecting countries, such as Italy, which had always deemed itself to be safe from the risk of infection.

As a result of increasing international pressure, Italy introduced measures during the summer aimed at bringing forward the public budget breakeven to 2013, amid manifold uncertainties and parliamentary dithering. Despite this, worries about the ability of existing mechanisms to provide financial assistance to countries in difficulty and the plummeting of international confidence in Italy led to abnormal run-up in spreads between the German bund and Italian government bonds, abetted by the increased speculation about the Italian government bonds.

The November auction with the interest rates on Italian treasury bills (BOT) up to above 7% led to fears that Italy’s finances were well above the acceptable limit which, like Greece, would trigger its leaving the Euro zone.

The Italian banks' borrowing conditions worsened abruptly with the rise in spreads as their credit standing received the same treatment as that of the country. Grounded preoccupations led to the fear that the Italian banks and the state would not be able to renew the large amounts of bonds maturing from early 2012.

The difficulty in obtaining funds both in Italy and other Euro zone countries immediately reverberated on the credit supply conditions which were already seriously difficult due to the increasingly number of insolvencies.

These events clearly show the financial operators' difficulties in countering the situations which characterised and united the crises of the last three years, such as:

1. high correlation;
2. rapid diffusion and far-reaching effects.

Carifermo was also affected by the generalised lack of liquidity.

The rise in loans and the lack of new savings being accumulated, especially by households, has made it increasingly hard for the bank which has operated so as to minimise the cost of growing indebtedness with other banks as part of its traditional prudent approach.

Participation in the auctions called by the European Central Bank has meant access to a supply channel of enormous strategic interest to the bank, given the large amount of government bonds held in its banking book, which can be used for these auctions and could not be freed otherwise due to the adverse price trends.

Carifermo's operational model is heavily based on prudence. Applying this approach to its securities portfolio, the bank favoured Italian government bonds rather than other forms of investment, which would certainly be more profitable but have greater credit and market risks, especially after the 2008 crisis.

We believe that, despite the large losses, the operational model has once again proven itself as we are convinced that the 2011 year-end prices of the securities portfolio do not embody a real risk of default but solely the effects of the aforesaid speculation which will, being such, disappear in the near future.

2011 saw a new drive towards the ongoing improvement of the bank's products and services, impacting its statement of financial position.

The bank's lending business underwent tailored and prudent expansion, which is sufficient nonetheless to increase the bank's support of local businesses, especially given the generalised contraction in bank credit.

Direct funding was stable if considered on an average annual basis, but dropped slightly using the year-end carrying amounts.

Indirect funding, and specifically assets under management, was negatively affected by both the general uncertainty on financial markets and muddled expectations about the reform of taxes on savings. The related legislative uncertainty was only clarified by the measures issued at year end.

While the bank made a very modest profit for the year, its income statement was heavily affected by large impairment losses on securities, and to a lesser extent, on loans.

However, the characteristic banking indicators improved which is interesting, namely net interest income was satisfactory while administrative expenses decreased.

After examining the international and domestic situation in more detail, we will comment on the financial statements captions and their trends later in this report.

INTERNATIONAL SITUATION

Unlike in 2010, the international economy lost ground steadily and this trend would seem to be set to continue based on future projections. Worries about state and private finances, the chronic difficulties of the real estate sector and the employment situation of the main developed economies all negatively affect growth prospects.

The recent slowdown in growth rates of the emerging countries should ease the tension on the economy's overheating.

Inflation continues to be relatively acceptable in the developed economies, stable at 2% net of the energy and foodstuffs components. However, the underlying pressure in the emerging countries has continued leading to rapid increases in inflation due also to the hikes in prices of raw materials and strength of the economic recovery.

The **US** economy continued to gain strength in the third quarter of 2011. Initial forecasts place real GDP growth rates as up 1.8% on the previous quarter. This reflects the upswing in consumption and the positive contribution of companies' capital expenditure while investments in residential construction continued to be weak.

Inflation decreased to 3.4% in November on a year-on-year basis, mainly due to the downturn in raw materials prices. This rate, net of the foodstuffs and energy components, is 2.2%. Recent inflation trends reflect the modest stabilisation in the growth of lease payments, in line with the weak real estate market.

In its meeting of 13 December 2011, the FOMC[1] agreed not to change the official Federal Funds rate from the 0% - 0.25% interval, deeming the rates to be appropriate given the weak international economy.

After the serious earthquake that hit **JAPAN** in March 2011, its economy took off with growth confirmed by the second estimate of the national accounting figures for the third quarter of the year and forecast growth of 1.4% for 2012.

Exports dropped by 7.3% from September to November, leading to a worsening in the trade balance and forecast weak growth.

The year-on-year consumer inflation rate decreased to -0.5% in November. The Japanese central bank decided to maintain its objective for the unsecured overnight deposit rate unchanged at between 0% and 0.1% in its most recent monetary policy meeting of 21 December.

The **CHINESE** economy is gradually slowing down, although it had borne up well to date considering the more negative outlook for the global economy.

The nominal growth rate of exports decreased from 13.8% to 13.4% on a year-on-year basis, as observed in November. Capital expenditure slowed down slightly while retail sales continued to be positive. Prudent policies, aimed at cooling down the housing market, have discouraged investments and decreased real estate sector sales volumes.

The annual inflation rate decreased to 4.1% in December, mainly as a result of non-foodstuffs goods.

The central bank maintained the reference rate and reserve obligation unchanged in December.

The growth rate in the **UK** continues to be modest. The employment market's situation has not improved and unemployment continues to be at an average 8.3% in the three months to October. This trend is set to continue in the short term although the stimulus provided by the monetary policy should change the situation. The restrictive credit conditions, household finances and tough tax measures continue to hold back internal demand. Given the forecast worsening in foreign demand, exports are expected to slow down.

Year-on-year inflation compared to consumption continues to be high although it did decrease to 5.0% and to 3.6%, net of energy goods and foodstuffs. The steady elimination of certain temporary factors (previous hikes in raw material prices, the sharp rise in electricity prices in

[1] the Federal Open Market Committee

autumn 2011 and the VAT rate increase from January 2012) and the presence of unused production capacity should lessen inflation tendencies.

The Bank of England maintained the official rate for merchant banks' reserves unchanged at 0.5% in December. It also maintained the stock provided for by the securities acquisition programme at £275 billion, funded by issuing reserves.

The real growth rate of the **EURO ZONE**, in terms of GDP, decreased again to 0.1% in the third quarter of 2011 compared to the previous quarter and continued to be weak in the last quarter of the year. According to provisional figures for the last two months, the economy would appear to be stabilising, although at a very low level.

However, the Euro zone’s economy is expected to pick up very slowly during 2012. The extremely low interest rates and measures implemented to assist the adequate working of its financial system are assisting the economy. Moreover, tensions in the financial markets have dissipated due to the monetary policies adopted and progress made to introduce stronger governance rules as well as the intensification of measures to return public finances to a healthier state in many countries.

Nonetheless, the modest international growth in demand, continued worries about sovereign debt, their impact on credit conditions and the ongoing recovery of their finances by banks and companies continue to curb growth.

Fourth quarter production (net of construction) in the industrial sector decreased for the first time since the 2008/2009 recession from 0.1% in October to -1.1% in November.

New industrial orders in the Euro zone concurrently decreased in November by 0.5% on October. The growth rate for the previous three months (-3.3% in October) dropped again to -5.3%.

The Euro zone’s labour market has steadily weakened with employment rates down and a countering rise in unemployment.

Forecasts are positive however. Employment decreased by 0.1% in the third quarter of 2011 after improving in the previous two quarters.

The December unemployment rate was 10.4%, up 0.5% compared to April 2011, when it started to increase again. The Euro zone indicators show continued negative trends in both the industrial and service sectors in both the fourth quarter of 2011 and the first three months of 2012.

Inflation in the industrial sector (net of construction) decreased to 4.3% in December from 5.4% in November. Net of the construction and energy sectors, inflation decreased from 3.0% in November to 2.6% in December.

Inflation in the consumer goods production sector decreased to 3.1%, driven by the drop in foodstuffs consumer prices to 4.1%.

Based on the above, the increase in inflation on imports and the Euro's recent depreciation, inflation is expected to rise in the short term for consumer goods.

The annual M3 growth rate slowed again in December. The weak monetary trends in that month were flanked by a further slowdown in the 12 month expansion of loans granted to private customers, especially to non-financial companies. Several non-recurring factors contributed to the December monetary figures, including banks' year-end transactions and the continued high uncertainty about the economy and financial markets, the effects of which should be temporary but are hard to evaluate. Therefore, the most recent data should be interpreted very carefully. Overall, they seem to indicate modest monetary and credit growth in the Euro zone in the last three months of 2011.

The annual M1 growth rate, which is affected to a greater extent by monetary policies, decreased from 2.1% in November to 1.6% in December. Both overnight deposits and notes and coins in circulation recorded negative monthly flows, leading to a drop in their rates over the year.

In the meantime, the availability of overnight deposits held by banks increased, reflecting the accumulation of funds by institutional investors, including investment funds, obtained by selling securities and engaging in open market operations as well as their need for liquidity to meet the large number of requests for redemptions.

GDP in **ITALY** decreased by 0.2% in the third quarter of 2011, a sharp drop on the previous quarter which recorded an encouraging +0.3% and increased by +0.2% on the third quarter of 2010. On the annualised quarterly basis, the decrease was 0.6%.

All internal demand components dropped. Except for the trade balance which contributed positively to GDP (+3.1%), all the other components were negative: -2.1% for stocks, -0.6% for capital expenditure, -0.5% for public spending and -0.4% for private consumption.

Figures for industrial production at the end of the year show an unexpected upturn, led by exports. According to ISTAT, the Italian consumer price index, domestic production remained stable on average throughout 2011 compared to the previous year when it grew 6.4%. However, it improved by 1.4% in December compared to November when the growth rate was 0.3%. This not only rebutted the fears about a contraction in growth but was also better than the other European countries, including Germany, which saw a 2.9% contraction in production in December, like France (-1.4%) and Spain (-6.9%).

The about turn was driven by foreign demand, which showed its ability to resist the crisis.

The ISTAT figures show that the December improvement was due to operating assets (up 3.2% on an annual basis) while the other components decreased: energy down 10.3%, intermediates 3.6% and consumables 0.8%.

Compared to December 2010, the industrial sectors that performed better were the mining sector (+11.8%) and pharmaceutical products sector (+10.1%). Those sectors that performed the worst were the electrical energy sector (-12.9%), and the textile, clothing, leather and accessories sectors (-10.9%).

The national consumer price index, including tobacco, increased in January 2012 by 0.3% compared to December 2011 and by 3.2% on January 2011.

Imported inflation was 1.6% while core inflation, net of energy goods and foodstuffs, came to 2.4%. The albeit modest slowdown in inflation was due to the slight rise in the growth rate trend of goods prices (+3.9%) from +3.8% in December 2011, more than offset by the decrease in those for services (+2.3%), from +2.5% in November 2011. As a result, the inflation gap between goods and services increased by 0.30% compared to December.

December 2011 figures for the labour market show a rise in unemployment from 8.8% in November to 8.9%.

The economic pickup in the **MARCHE** region was very volatile in the first nine months of 2011. After a weak recovery in the first half of the year, the economic situation worsened rapidly from the summer to early autumn.

An analysis of the main regional specialist sectors shows that production was above average for the footwear and mechanical sectors but below average for the furniture and household appliances sectors, with the small businesses principally showing the most difficulty.

Exports were on the rise although to a lesser extent that in the rest of Italy. Investments languished due to the widespread lack of confidence in the markets. Transactions in the real estate market decreased as did construction. The number of employees decreased, especially in the industrial sectors, including consultants, while unemployment rates rose.

After picking up in the first six months of the year, bank lending activities decreased during the summer, reflecting the reduction in business loans. Loans to households slowly decreased, following the trend seen for the last few years. The rate of new non-performing loans decreased slightly although it continues to be higher than the pre-crisis rate. Household deposits remained unchanged.

With respect to the footwear sector, three underlying trends are worthy of mention:

A. Confirmation of the positive results achieved in 2011, thanks to strong exports, as can be seen by:

   1. A large increase in exports in terms of both volumes and amounts in the first three quarters of 2011, thus confirming the two-digit growth rates seen in 2010;

2. A parallel rise of 18.1% in the net trade balance, again for the first nine months of 2011, with a further recovery on 2010, when the trade balance first started to grow again;
3. Continued positive employment figures, with a 1.0% average increase in 2011 leading to a reduction of more than one third in resort to the government-sponsored lay-off scheme in 2011 compared to 2010, thus halting the growth in unemployment which started in 2008, took off in 2009 and grew again in 2010.

The sector is able to positively and rapidly exploit its export potential although there are visible difficulties in the domestic market, given that household consumption decreased by 2% in the first nine months of 2011 in terms of volumes and has only grown to just above 0% in value terms.

B. The second factor is the companies' better ability to react to crisis situations, as shown by the more extreme transformation processes enacted which free up energy unused in the past.

C. The third factor is the growing apprehension, seen in the last few months of 2011, despite the average positive results for the year. Certain factors can objectively be said to underpin this apprehension: first and foremost, worries about companies' liquidity, as they are subjected to dual pressures due to late or non-payment by customers on the one hand and tight credit restrictions on the other.

The Italian banking system

2011 was another extremely tough year for banks due to the complicated conditions faced by many Italian production companies. This is worsened by problems of a more structural nature due to the high costs.

The drastic drop in profit margins over the last few years and especially in 2011 have diminished resources and make it more arduous to obtain funds on the market, thus checking the banks' ability to sustain the economy.

Moreover, the financial markets' crisis and the huge drop in prices of government securities heavily impacted banks' profitability.

Marginal recoveries of profitability were achieved with an improvement in service quality to allow expansion and a partial rebalancing of revenue. New technologies introduced on a wider scale into the banks' production processes and the public's greater confidence in using them have started to assist the rationalisation of production processes and networks.

Given the capitalisation objectives of Basel III, the Italian banks have made great progress in strengthening their asset bases over the last few years, without having to make significant resort to the government's recapitalisation aid. This was mainly achieved by collecting funds on the private capital market, including during difficult periods (approximately €20 billion).

These efforts were made as it is generally held to be extremely important that the banks are prepared for implementation of Basel III in 2012, to be fully operational from 2019.

Preliminary estimates show a slight improvement (1.3%) in Italian bank funding trends at the end of the year, consisting of deposits from residential customers, such as current account deposits, term deposits, deposits reimbursable with notice and repos, and bonds. The growth rate trend was 1.6%.

A breakdown of the different components of bank funding show that residential customer deposits decreased by 2.1% while the annual growth in bank bonds was 7.9%.

Repos with customers dropped significantly to -39% at year end.

The average customer deposits rate, including yields on deposits, bonds and repos, was 2.02% in December 2011 compared to 1.50% in December 2010.

The gross yield on the secondary CCT treasury certificates market was 8.91% at 3 December 2011 compared to 259% at the end of the previous year. The average yield on BTP government bonds was 6.59% compared to 4.55%.

Bank loans decreased slightly at the end of 2011 although the trend was positive for the year. Loans to households and non-financial companies grew by 3.6% compared to the average 1.6% for the Euro zone.

A breakdown of the component shows that the medium to long-term loans grew by 3.0% on an annual basis and by 1.7% at year end while short-term loans grew by 5.4% and 1.5%, respectively.

At year end, loans to non-financial companies had grown by 3.1% compared to 1.4% for 2010.

According to the January 2012 *Bank lending survey*[2], there has been a sharp drop in the request for loans by companies for investments based on loan applications made so far in 2012. On the other hand, applications for loans to cover debt restructurings and consolidation and working capital requirements continue to grow.

Household loan applications have decreased slightly to +4.3% compared to +7.7% for 2010.

The average interest rate applied to loans to households and non-financial companies in December 2011 was 4.25%, 62 bp above the December 2010 figure according to the ABI (the Italian Bankers Association) figures.

The spread between rates on loans and funding from ordinary customers is basically unchanged compared to the previous year end.

Gross non-performing loans exceeded €107 billion at the end of 2011, a large increase on the previous year, leading to a significant rise in the riskiness rate (the ratio of non-performing to performing loans) to 6.1% and this is expected to worsen. The Prometeia (the Italian knowledge company) report shows an estimated growth in irregular loans of 9.5% by the end of 2014.

Year-end forecasts for the banks have considered many very negative factors. Net interest income is expected to decrease again by 1.2% after the drastic drop seen in 2010. Revenue from services, which considerably assisted banks' profitability in previous years, is also expected to decrease by 1.3%.

Estimated trading income and fair values on assets are forecast to be down 440% notwithstanding the already very negative results of 2010.

Currently available estimates indicate a visible reduction in impairment losses and provisions compared to 2010 and this has contributed to improving the banks' results.

The overall profit for the year of the Italian banks is expected to be 112% lower than that of 2010.

The bank's operations

The bank's operations have been heavily impacted by the numerous, far-reaching legislative measures, the effects of which have been seen during the year when the macro economic situation and the banking sector have been particularly upset.

The changes to the legislative framework were often hard to interpret, thus making their implementation even more arduous.

The related difficulty in managing the bank and implementation of its previously-designed strategies have required a very specific organisational structure, production processes and policies which comply with the relevant legislation, customers' interests and the business plan.

Accordingly, the bank has continued to refine and improve its internal controls so as to be able to monitor its governance system, commercial practices and modus operanda in an increasingly careful manner in line with its operating decisions and supervisory authorities' guidelines.

Reflecting these requirements, the bank's organisational structure includes a Compliance Unit which works together with the other relevant units, first and foremost, the Internal Audit Unit, carrying out higher level controls as the first level controls are normally assigned to the operating units.

[2] Published by the European Central Bank on 1 February 2012

Many procedures have been completed with respect to the bank's organisation. Specifically:

1. Transfer to CARICESE of certain stages of treasury management and cash services provided by the bank on behalf of state bodies on an operating outsourcing basis;
2. Migration of the landline telephone system of the offices and branches to the VOIP technology in order to contain administrative costs;
3. Activation of Poste Italiane on-line services for the sending of registered letters and telegrams;
4. Activation of ABI on-line services for the Bank Directory and List of Bank Branches;
5. Optimisation of the debit card management process with introduction of the "*CARIFERMO BANCOMAT INTERNAZIONALE*" card (Carifermo international debit card) and commencement of decentralisation of the card issue service to customers;
6. Completion of activation of a new counter application, NSC, at the branches;
7. Completion and implementation for the entire network of the scanning of customers' digital signatures with the subsequent extension of the transactions that can be performed thus improving the controls over decentralised operations;
8. As part of the projects to improve interbank mobility for customers, the TDT (standardised transfer of financial instruments) interbank service was activated;
9. Alignment with international rules about microchip debit/credit cards with the whole scale replacement of multifunctional Cartasì credit cards and magnetic band Bancomat cards issued by Carifermo;
10. Activation of the digital recording system of telephone orders from customers, pursuant to the Consob (the Italian commission for listed companies and the stock exchange) intermediaries regulation;
11. Review of the contracts for bank services/products and investment services and additions to the electronic format forms available to replace the paper forms;
12. Activation of the SEPA direct debit formats as the paying bank;
13. Activation of the phone banking service whereby customers can access Carifermo services by smart phone.

During 2011, the bank rolled out a project called "Open bank", aimed at completely reorganising how bank branches are managed and presented. The main objectives of this project, which will be activated in early 2012, are:

1. Improvement of employees' interchangeability with the related reduction in the branch's costs;
2. Transition of routine activities from the counter to the ATM machines located in a self service area, which is always open to the public;
3. Optimisation of the codes and introduction of an automated system which reduces customers' waiting time at counters;
4. Increasing customer loyalty by enhancing the branch personnel's role whereby they mainly provide consultancy rather than simply carrying out transactions;
5. Encouraging cross-selling;
6. Widespread introduction of new technologies and concurrent cutting of the cost of equipping bank branches.

The "Open bank" project will be piloted at three completely different bank branches in order to assess its impact and compliance with the objectives. It will then be rolled out at other branches after the results of the pilot procedures have been checked. It is reasonable to presume that the best results will be obtained by the larger branches.

The "contractual process" project, complementary to the "Open bank" project, tends to block the process of commencing new bank transactions guiding the tellers by defining the contractual process required each time in a rigid manner, currently managed through tables.

This project has an extremely high value added component for the "Open bank" branches and will also be implemented at the other branches given its importance.

This second project is of fundamental importance given the activities agreed with the IT outsourcer, CSE, and will cover all branch contract activities, meaning it is quite complex. Issue of the various forms will take place over the project's duration.

With respect to development of the bank's commercial operations, it has implemented an integrated system of information, conduct rules and assistance for the sales network which considers the different customer segments and develops, on a mainly multi-channel basis, streamlined, efficient bank-customer interaction formulae at a modest cost for the user and which are increasingly less dependent on the branch's actual location.

In this respect, the bank properly used the new branch management system, NCS, designed specifically to provide very sophisticated and integrated assistance to bump up their commercial development.

A very high level of assistance was provided to the branches at all levels firstly by the relevant Commercial Division and also by general management.

During 2011, the bank stepped up its actions to strengthen and build up its positioning in its traditional locations, aiming specifically at complying with budget objectives designed especially to strengthen its presence while considering the sensitive issue of the branches' growing profits, particularly those opened more recently.

Attainment of these minimum objectives by most branches in 2010 and again in 2011 confirms the bank's policy of ongoing expansion without sacrificing prudence.

The bank's relationships with the different credit facility underwriting syndicates continue to be intense and very profitable. These relationships have been built up over the years to all the parties' great mutual satisfaction.

In addition to strengthening the bank's branches and multi-channel approach, its primary objective has been to improve its product and service portfolios to its customers' benefit on a day-to-day basis.

The bank's securities trading approach is a sure value added factor, consistently based on providing a balanced, prudent service which is constantly monitored to ensure compliance with MiFID regulations. Attention is paid to strengthening relationships with customers in line with the bank's strategies rather than forcing more profitable but much less transparent financial trading services.

This approach was particularly profitable in a year, such as 2011, when financial risks took off, to the detriment also of government securities, which had always been a safe haven for the more prudent savers.

With respect to lending policies, the bank continued to monitor new risk, especially in this period of economic crisis with borrowers finding it increasingly difficult to repay loans. Despite this, its lending policy, which is used as a basis for deciding loan disbursements, continued to include assisting businesses and households as can be seen by the increase in total lending volumes, which is above the sector average. The bank's projects included:

a. Solidarity fund for first home loans;
b. ABI's family plan for the suspension of loan repayments;
c. Standard notice for the suspension of payables of SMEs;
d. Memorandum of understanding for the mobilisation of claims to SMEs.

Given market pressure and the increasing liquidity crisis, the bank's funding policy aimed at maintaining its position without having to compete at unfavourable conditions. Direct funding, measured by average balance, was positive although it slowed down in the last few months of the year.

Given the very delicate and difficult interbank market situation, the bank's treasury management policies were based on prudence and aimed at ensuring suitable protection for the payment system. The conditions for freeing up its securities portfolio worsened during the year which led to the need to make resort to refinancing agreements with Banca IMI and, in the latter part of the year, directly with the ECB. Accordingly, the bank took part in various auctions acquiring the liquidity required as it could avail of a large unrestricted securities portfolio nearly entirely composed of government and bank securities.

The duration of the securities portfolio remained short in order to avoid an undesirable rise in market risk.

The bank's treasury and cash service provided to local bodies continued to be intense and very profitable. During the year, it was able to strengthen its traditional role in this segment. Indeed, it encouraged and consolidated agreements with local bodies aimed at exploiting all possible existing synergies to their advantage and that of the surrounding communities.

Alliances were put in place to more intensely make the most of available technologies. Accordingly, the procedures for the IT mandate for chambers of commerce, schools and public bodies were commenced. They will be fully operational in 2012 and will streamline this segment's operations, ensuring its profitability.

With respect to the bank's income statement, it should be noted that the 2011 figures are affected by fair value losses on securities and impairment losses on loans.

Therefore, the income statement figures will be commented on in detail in a specific section of this report, while it is clear that a picture of the bank's real performance can only be obtained by excluding the macroscopic effects that adversely affected its results.

Net interest income improved despite the increase in the cost of funding. Net fee and commission income was substantially in line with that for the previous year while administrative costs decreased considerably, thanks to the careful cost containment policies put in place.

The bank stepped up its focus on containing costs by the ongoing monitoring and selection of day-to-day costs and closely supervising new investment programmes within the limits necessary to comply with new legislation and ensure business continues to grow. Its projects included the migration to the VOIP telephony system.

Notwithstanding the adverse market conditions, the bank's management of the terms applied to its customers, in line with the financial market indications and Banca d'Italia's instructions, represented the most correct balance between demand and supply allowing it to follow market trends and align its interest rates on a timely basis along with other conditions thus benefitting from important opportunities to best place its products.

The profit for the year would have been significantly higher than that for 2010 if the income statement figures for the two years are made consistent by eliminating the effects of the fair value measurement of securities and the non-recurring events that took place in 2011 which significantly affected the bank's results.

Organisation and workforce

The bank has 59 branches and another one will be opened in early 2012 in Rome, where the bank already has two branches.

At 31 December 2011, the bank's 59 branches were located in seven provinces and three regions as shown in the following table:

REGION	PROVINCE	No. of branches 2011
Marche	Fermo	28
Marche	Ascoli Piceno	11
Marche	Macerata	13
Marche	Ancona	2
Abruzzo	Teramo	2

Abruzzo	Pescara	1
Lazio	Rome	2

The property maintenance programme included ongoing work to maintain all the bank's properties, both owned and leased, in order to improve their working and comply with the law.

Extraordinary maintenance work was also commenced during the year (and had not been completed at year end) at the Fermo branch and the Sant'Elpidio a Mare property. The extraordinary maintenance work of the Porto Sant'Elpidio - Faleriense property had been completed by year end.

The bank's owned property used for operations has a surface of 27,111 square metres while its leased property has a total surface of 8,668 square metres.

The bank also owns properties which it leases for a total surface of 5,915 square metres.

The bank continued to roll out the new "bio-digit" technologies during the year, confirming its intention to ensure the highest available security standards for its employees and customers, strengthening the crime prevention measures in place at branches, especially for those at greatest risk.

At year end, the bank had a total workforce of 403 employees, excluding the cleaner, compared to 412 at the end of 2010 as follows:

	2011	2010	2009
Managers	2	2	3
Junior managers (3rd and 4th level)	34	40	38
Junior managers (1st and 2nd level)	59	63	61
3rd professional area	296	299	303
2nd professional area	12	8	12
Total	**403**	**412**	**417**
Cleaning staff	*1*	*1*	*1*

The above workforce included 402 employees with open term contracts and one employee with a term contract at the year end. During the year, four term contracts were converted to open term.

In 2011, 14 employees left the bank (10 with open term contracts and four with term contracts) while five people were hired (one with an open term contract and four with term contracts).

The following table summarises changes in the workforce during the year:

	2011	**2011 departures**	**2011 entries**	**Converted from term to open term contracts**	**2010**
Open term	402	10	1	4	411
Term	1	4	4		1
Total	**403**	**14**	**5**		**412**
Cleaning staff	1	0	0	0	1

The containment and streamlining of operating processes associated with the increasingly intense development of IT technologies, together with adoption of more efficient organisational models, allowed the redistribution of human resources with over 70% at the branches and the other 30% at head office. This has effectively contributed to the necessary containment of overheads.

The employees' involvement in the bank's objectives, ensured through regular meetings of head office and branch personnel, and enhancement of their skills through training, is a key HR target as the bank is convinced of the central role played by its employees.

Training activities involved all the professional staff about all relevant issues.

Special courses were held for new staff about both their specific duties and for long-term objectives.

Great importance was thus given to training with most employees participating at internal and external courses. As in the past, courses were held about finance issues, administration and taxes, lending and insurance.

The aims were threefold:

1. to provide training to new or recently hired staff and personnel transferred to new positions within the bank;
2. to build up the specific skills of personnel holding particularly important positions, also considering the legislative discontinuities which require ongoing refresher courses;
3. to promote new products and services, especially those of a financial nature, and with a special focus on risk management.

The bank also has an e-learning platform for correspondence courses, details of course materials and events.

During 2011, there was a downwards trend in the number and percentage of transactions in securities performed on-line.

Purchases and sales of securities made on-line by customers decreased to 58.4% compared to 60.5% in 2010 and made up 38% of the total volumes traded.

Altogether, the internet banking service, which includes on-line trading, is well met by customers and 8,983 customers activated the service at year end compared to 8,017 at the end of 2010.

Alongside the internet banking service, designed for individuals, the bank successfully launched its corporate banking service with an increasing number of businesses using this option. At 31 December 2011, 3,397 businesses had registered with this service compared to 3,176 at the end of 2010.

A large number of transactions previously performed at the bank's premises are now carried out on-line. With respect to commercial bill collection presentation requests, 72.5% are performed on-line compared to the previous 69% involving RIBA, RID and MAV requests.

The ATM service has 944 machines compared to 859 at the end of 2010 with transaction volumes down 2.3% on an annual basis.

The bank's activities with local bodies also increased in 2011.

At year end, it managed 22 treasury services and 33 cash services.

The annexes to the financial statements include a list of the bodies to which the bank provides treasury and/or cash services.

Internal controls

The current system of internal controls is set up in such a way as to ensure appropriate and careful monitoring of the bank's activities and, especially, those subject to the most significant implicit risk.

The controls involve the board of directors, the board of statutory auditors, senior management and all personnel, based on their roles and responsibilities.

Specifically, responsibility for the internal controls lies solely with the board of directors, whose duty it is accordingly to:

- establish guidelines, strategies and risk management policies;
- approve the bank's organisational structure, ensuring duties and responsibilities are allocated clearly and appropriately;
- regularly check the organisational structure's adequacy and effective working;
- ensure that the control units are sufficiently independent of the other units and have the appropriate resources to correctly carry out their duties.

The board of directors also regularly assesses the internal control's compliance with the bank's business model and their overall functionality, effectiveness and efficiency. It adopts any remedial actions promptly if it identifies weaknesses and/or irregularities during its checks.

The internal controls cover all the bank's operations and are an integral part thereof. They include the following types of control:

- first level controls
    - line controls, that can be carried out by the production units themselves, included in procedures or performed as part of back office activities;
- second level controls
    - these are carried out by units that define the risk measurement methodologies, check compliance with the limits set by the board of directors on an ongoing basis and compliance with the assigned risk objectives; second level controls also include compliance controls, aimed at ensuring efficient risk management so as to avoid judicial or administrative sanctions, large financial losses or reputation damages due to the violation of external (laws and regulations) or internal rules;
- third level controls (internal audit)
    - their objective is to check the correctness of the bank's operations and adequacy of its risk management procedures.

Specifically, third level controls are carried out by the Inspection Office and the Internal Audit Unit to check the correctness of the bank's operations, the efficiency of its organisation, compliance with proxy limits, the overall working of the internal controls and reliability of the IT systems. These important functions are carried out with on-site inspections and distance controls. They cover all the bank's operations, e.g., credit, finance, related services and those issues which are subject to specific regulations such as transparency, usury, anti-money laundering, investment services and others.

In addition to the reports generated automatically by the IT system, which provide daily information useful for control purposes, the Inspection Office and the Internal Audit Unit have IT tools to prepare basic data. Their subsequent combination and application of predefined control parameters allows the faster identification of any irregularities or high risk situations.

Over the last few years, the Inspection Office has focused more on audit issues.

When urged to do so by the Inspection Office, senior management takes steps to eliminate any weaknesses, assisted by the relevant office due to the lack of line or second level controls, the related adequacy or inadequacy of organisational processes and any other aspects that could compromise the working of the internal controls as a whole or risk management.

The current credit risk management procedure gives an overall view of individual customers or groups of related customers. Compliance with credit limits is checked in real time and unauthorised overspending is identified and communicated to the relevant office which granted the facility.

A specific head office unit, identified by the Internal Services Regulations, checks the correct performance of customers. This is the Risk Controls Office which reports to the deputy general manager and may reclassify credit items if necessary with the managing director's approval.

Performing loans are monitored using automated reports to the relevant offices that identify any irregularities.

Given the bank's size and the principle of proportionality, the Risk Governance Office is responsible for monitoring and measuring risks, including the risk of non-compliance with the law. These are second level controls carried out by the Office's two units: Risk Management and Compliance.

The Office is sufficiently independent in order to ensure segregation between the risk measuring/control functions from both the operating and internal audit functions.

Risk Management

The Risk Management Unit continued its work during the year aimed at measuring and controlling the different types of risk in line with the instructions issued by the board of directors and the supervisory authorities.
Accordingly, it monitors the following risks:

Market risk

Ruling regulations require that the VaR (Value at Risk) method be used to measure market risk. It estimates the potential loss considering market values for a set period of time and a set confidence level at normal market conditions.

The VaR method, developed for management purposes with a special application designed by Promoeteia, based on the variance-covariance method, calculates the maximum potential loss at a confidence level of 99% of the banking book over a time frame of 10 days. It measures the variability of the banking book's value using risk factors, being interest rates, exchange rates and market indexes, without considering the issuer's credit risk.

Liquidity risk

Liquidity risk is measured using an internal model and data provided by the ALM-PRO application since 2009. The board of directors' model is based on the cumulative imbalance between assets and liabilities split by maturity.

Interest rate risk

The model used to measure the banking book's exposure to interest rate risk includes calculation of the risk indicator considering the maturity or repricing of assets and liabilities as per the supervisory authorities' instructions. It gives the bank's net weighted position compared to its regulatory capital. The data used for the measurement are taken from the A2 matrix on a quarterly basis.

Credit risk

Systematic application of the CPC (Credit Position Control) model, introduced in 2006, has improved the efficiency levels of monitoring performing loans both at branch and head office level. Reports are produced regularly on the largest irregularities, broken down by geographical location and customer type.

A counterparty internal rating system is also used for internal purposes only. The adopted procedure (S.A.Ra. - automatic rating system) classifies customers by credit risk level and estimates the probability of default (PD) based on the counterparty's performance trends, qualitative information obtained in questionnaires and, for companies, assessments of financial statements on a statistical basis.

Single-name and geo-business segment concentration risk

The bank's exposure to business and geographical concentration risk is assessed every three months using Banca d'Italia's regulatory models.

Compliance Unit

The Compliance Unit assesses the risk of non-compliance of the bank's strategic and operating decisions. It carries out preventive checks and subsequent monitoring of the effectiveness of procedures, mainly to prevent possible violations or infractions of the relevant legislation, namely Legislative decree no. 231/2001 (administrative liability), Legislative decree no. 196/2002 (privacy), Law no. 197/1991 (anti-money laundering), Law no. 62/2005 (market abuse), MiFID and transparency directives. It promotes initiatives to make employees more aware of these issues and provides assistance.

Like the Inspection Office, the Compliance unit may report directly to the board of directors.

Last but not least in terms of importance, the bank has a control unit which monitors securities trading at branch and head office level.

Anti-recycling Unit

This is a control unit with the required independence characteristics whose objective is to prevent and combat money laundering and terrorist financing.

It checks that the internal procedures are suitable to prevent and combat violations of external and internal rules about anti-money laundering. It identifies the applicable rules, assesses their impact on the bank's processes and procedures, checks that the internal controls are adequate and proposes possible changes to the organisation and procedures to ensure the risk is properly monitored.

IT risks and the data protection document

The bank's IT systems are mainly housed on an operating platform supplied and managed by CSE - Consorzio Servizi Bancari Soc. Cons. a r.l. on an outsourcing basis. This guarantees the security, quality and reliability necessary for all the services used.

The bank also uses other application packages, mainly to provide IT support, analysis and control functionalities. They are installed and managed directly by the relevant internal offices.

Following enactment of Legislative decree no. 196/2003, the Privacy Code, which became effective on 1 January 2004, the bank drew up the data protection document as per point 19 of the Technical Regulations, Annex B to the aforesaid Legislative decree. This document is revised regularly.

The bank's primary objective is the secure processing of personal information and, therefore, the document has been prepared to ensure the correct performance of the internal information system, its correct working and resistance to hacking for the equipment exposed to internet risks.

The relevant internal units perform the related controls at different levels, focusing on checking that the security measures are updated regularly to reflect changes in risks deriving from unauthorised access, changes to personal data or its destruction, either unintentionally or intentionally.

As required by law, the outsourcer CSE has a disaster recovery plan which it regularly updates and checks the data in order to combat the significant risk of disaster and/or hacking.

While the currently directly managed application systems do not have any critical aspects, the bank has a backup plan with all the data recovered from the intranet servers, as required by Legislative decree no. 196/03.

In order to reduce the potential risks of on-line connections to the internet, the bank has a special portal and an intranet for internal e-mail management.

All bank employees who handle personal data and use electronic tools undergo training about the related risks and the proper procedures to adopt in order to avoid damaging events.

Business continuity and disaster recovery plans

In accordance with Banca d'Italia's instructions, the bank has a business continuity plan prepared with the assistance of its IT outsourcer.

The issue of business continuity includes a purely technological component (disaster recovery) and an organisational aspect, aimed at defining a business continuity plan for emergencies to ensure a return to minimum operations in a short as possible time frame in the case of a disaster.

The bank updated its plan during the year and checked it.

KPMG S.p.A. performs an IT audit of CSE, as requested by the banks that use its services, and checks the security of its procedures. It also performs follow-up procedures of the main issues identified during the previous year audit and specific risk analyses of the system's vulnerability to external threats.

Privacy - Legislative decree no. 196/2003

Pursuant to the Data Protection Ombudsman's measure of 12 March 2011 "Measures for the circulation of information in banks and tracing of bank transactions", the bank has informed the relevant employees and implemented the related checks.

ISVAP Circular no. 551/d of 1 March 2005 - Instructions about the transparency of life assurance contracts

In accordance with ISVAP Regulation no. 05/2006, the bank sells insurance products solely via its specially trained personnel. This training, required by the above regulation, is mainly provided by its insurance partners.

The documented procedures for contacts/sales are constantly and carefully checked with respect to the completeness of the information provided to customers and employee training.

Law no. 262/2005 - Instructions for savings protection and financial markets regulations

With respect to Law no. 262 of 28 December 2005 and the bank's proper application, on 22 December 2010, Consob approved the bank's prospectus for the issue of bonds as part of the Issuance Programme approved by the board of directors on 5 October 2010 with its measure no. 10103671.

This prospectus comprises the Filing document, Summary notes and Notes on each type of bond.

All the documentation can be found on the bank's web site and downloaded.

Law no. 231/2001 - Companies' administrative liability

Legislative decree no. 231/2001 introduced the administrative liability of companies for unlawful practices carried out by company key personnel in its interests. This decree provides for the non-liability of companies that have previously adopted and implemented an "Organisational model" suitable to prevent the crimes it sets out.

The bank introduced its Organisational model during the year and updated it to include the new crimes, assisted by the supervisory body which checks its working, effectiveness and compliance. The body also ensures that it is up to date.

Law no. 231/2007 - Prevention of the use of the financial system for the purpose of money laundering and terrorist financing

Following enactment of the law regulating consumer credit and issue of the related ministerial decrees and subsequent measures of the supervisory body, the bank issued its internal regulation leading to the necessary adjustments to the organisational and operating processes for the opening of credit facilities on current accounts. It also provided its network operators with suitable training.

Specifically, during 2011, the following measures were taken to align the bank's procedures and processes with the money laundering law, including:

A. Setting up a Money Laundering Unit and appointing the related manager, giving them the relevant proxy to report suspect transactions;

B. Approval of an internal policy to combat money laundering and terrorist financing;

C. Circulation of the Italian Foreign Exchange Office communications during the year and those of the Financial Security Committee;

D. Changes to the operating processes to decrease the ceiling for the use of cash and bearer securities to € 5,000, €2,500 and € 1,000 and to decrease the bearer deposit book balance to below the legal limit.

Other laws and regulations

- Modification of procedures to comply with changes in tax laws about the taxation of financial income;
- Changes to comply with new rules about stamp duty issued during the year;
- Alignment with the amended rules about the taxation of funds under management;
- Alignment with the transparency law for certificates of deposit;
- Alignment with the new rule about brokerage as per Legislative decree no. 28 of 4 March 2010, especially as regards communications to customers;
- Issue of an internal regulation for the management of Large Risks, as per the supervisory authority's instructions.

THE BANK'S FINANCIAL POSITION

Lending

Breakdown of lending by product							
				Half year difference		Annual difference	
	31/12/2011	30/06/2011	31/12/2010	Amount	%	Amount	%
Current accounts	189,737	188,298	175,604	1,439	0.8%	14,133	8.0%
Postal current accounts	28	160	80	-132	-82.5%	-52	-65.0%
Financing for advances	201,911	183,614	169,656	18,297	10.0%	32,255	19.0%
Loans	567,374	571,635	562,764	-4,261	-0.7%	4,610	0.8%
Subsidies not settled through current accounts	68,748	56,083	60,675	12,665	22.6%	8,073	13.3%
Loans on pledges	65	60	72	5	8.3%	-7	-9.7%
Salary-backed loans	264	333	378	-69	-20.7%	-114	-30.2%
Non-performing loans	25,130	20,774	18,670	4,356	21.0%	6,460	34.6%
Portfolio risk	879	1,566	533	-687	-43.9%	346	64.9%
Treasury transactions	3,606	916	571	2,690	293.7%	3,035	531.5%
Total lending	**1,057,742**	**1,023,439**	**989,003**	**34,303**	**3.4%**	**68,739**	**7.0%**
- of which in Euros	1,053,244	1,021,208	986,770	32,036	3.1%	66,474	6.7%
- of which in foreign currency	4,498	2,231	2,233	2,267	101.6%	2,265	101.4%

Given the worrying national and local economic situation during the year, the bank maintained its prudent approach to assessing the credit standing of its ordinary customers. As it is the bank's mission to be the local reference bank for households and businesses, it took all possible measures to continue to support its customers in this extraordinarily difficult period, consistently with their credit standing.

This mission and the bank's ability to couple its vocation as the local reference bank with its characteristic healthy and prudent approach to business, which is one of its strengths, was confirmed again by the ongoing economic difficulties.

As can be seen in the notes to the financial statements and indirectly in the breakdown of the loans by product, guarantee levels remained at the usual suitable levels, especially given the current economic climate.

That being said, the lending business was assisted by the opportunities availed of by the branches in new locations, reaching new objectives and the diversification necessary to contain credit risks.

Overall, the lending business picked up by 7.0% on a comparative basis, demonstrating the bank's efforts and support of the local economy with this result which is well above the sector average. As shown in the above breakdown by product, the six-month growth is consistent and steady over the entire year.

Loan concentration, assessed by borrower, decreased again, continuing its steady reduction, as shown in the following table:

Loan concentration						
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
Top 10 customers	7.17%	7.21%	7.71%	8.06%	9.87%	10.15%
Top 50 customers	18.58%	18.83%	19.57%	20.04%	21.19%	20.86%
Top 100 customers	25.89%	25.92%	27.14%	27.08%	27.80%	27.61%

An analysis of lending by product confirms the slowdown in growth of the longer-term products at € 567,374 thousand compared to € 562,764 thousand at the end of 2010, an increase of € 4,610 thousand or 0.8%, thus representing a slow down in a very positive growth trend seen in previous years.

The non-performing/performing loans ratio continued to be very modest in 2011 in line with previous years.

Current account balances amounted to € 189,737 thousand at year end, up 8.0% on an annual basis, reflecting the significant assistance offered, in the form of ordinary credit, mainly to companies.

Financing for advances gained significant ground in volume terms from € 169,656 thousand at 31 December 2010 to € 201,911 thousand, up 19% tied to the albeit modest upturn in companies' turnover. Statistics for unaccepted trade bills under reserve show an annual increase in the number of orders presented at the bank's branches (+3.3%) and the amounts involved (+8.25%). Interbank direct relationships grew by roughly 7% in number and amount while payments against notice increased by 5.6% and 11.5% in number and amount, respectively.

Subsidies not settled through current accounts increased to € 68,748 thousand compared to € 60,675 thousand at the end of 2010.

The bank did not use derivatives to hedge interest rate risks on fixed rate loans during the year, also because of the small percentage of this type of loan compared to floating rate loans.

Its credit risk controls entailed the careful monitoring of non-current assets, both with respect to their financing and the risk that the repayment dates may be extended.

The Risk Governance Unit kept general management up to date on developments with respect to the risk of repayment date extensions and the interest rate risk.

In terms of credit quality, overdue positions decreased significantly from € 3,269 thousand at the end of 2010 to € 2,636 thousand at year end, with impairment losses of € 114 thousand.

Substandard loans, including estimated losses, came to € 38,150 thousand compared to € 43,126 thousand at 31 December 2010, down 11.5% which includes fair value losses and discounting of € 3,635 thousand.

Non-performing loans amounted to € 45,110 thousand at 31 December 1011 compared to € 36,354 at the end of 2010 while impairment losses came to € 19,979 thousand against € 17,683 thousand. Net of these impairment losses, non-performing loans total € 25,131 thousand compared to € 18,672 thousand at 31 December 2010, an increase of 34.6% which is in line with the banking sector's average.

The oft-mentioned issue of the under-capitalisation of local companies, which is not always fully perceived by local entrepreneurs, makes it difficult to assess their credit standing which is partly overcome by analysing the stability of their revenue and trade receivables collections. The ongoing economic crisis has highlighted a widespread lack of liquidity in addition to the problem of scarce internally-generated funds especially for the footwear sector, which is the main local business, accustomed to working on the basis of a strict production schedule which is often adversely affected by competition from "ready to wear" articles.

This has obviously led to temporary financial difficulties often countered by considerable efforts and maximum operating flexibility, thus increasing the probability of irregular trends.

The percentage of new loans reclassified as non-performing increased significantly during the year and amounted to € 15,180 thousand, equal to 41.7% of the entire non-performing category at the end of 2010, including 13,424 thousand of loans previously classified as substandard.

New non-performing loans in 2010 amounted to € 6,907 thousand, showing the faster decline in credit quality.

Collections received during the year were consistently high, directly offsetting non-performing loans which came to € 6,423 thousand compared to € 3,950 thousand in 2010.

Collective impairment losses on performing loans were made using credit deterioration statistics of previous years and the credit deterioration rates published by Banca d'Italia and communicated to the banks via the public database, mitigated by an empirical analysis of companies' results.

These two estimates, i.e., the probability of default (PD) and the bank's historical loss trends, were used to determine the different impairment percentages for each business segment, considering also the guarantees given and the duration of each type of loan.

The implicit risk on performing loans is determined by considering the economic climate and making a collective impairment, currently calculated to be € 9,831 thousand compared to € 10,100 thousand at 31 December 2010, equal to 0.98% of the performing loans, which falls within the high end bracket of the performing loans of the Italian banking system.

Monitoring of credit risk, both for loans and endorsement credit, is an ongoing process which uses analyses obtained using the state-of-the-art IT credit position control (CPC) tool, designed to provide an automatic analysis of credit by determining a point system for the different loan performances and a weighting system.

As part of the internal control project, the bank is introducing a more evolved system to assign ordinary customers (households, craftsmen, professionals, partnerships and companies) specific ratings depending on the type of company and, obviously, their financial position, results of operations and performance. This system will work alongside the CPC model and also considers the performance of the different business sectors to which the customers belong, integrated by subjective merit factors.

Specifically, the internal rating system uses three sources of information:

- analyses of the customer's relationship with the bank and the banking system in general;
- statistical analyses of their financial statements;
- qualitative analyses of aspects that require subjective assessment by an expert.

The bank also gives particular importance to the customers' "personal" data.

As part of its traditional policy of prudence, the internal rating programme is not used to determine regulatory capital requirements, for which the standard method is used.

Should the customers' relationships with the bank deteriorate and it be deemed necessary, the Risk Control Unit monitors all their positions and works with the relevant branch to implement all suitable actions to return the relationship to normal, as the key priority, and to establish and coordinate the measures to recover the outstanding amounts when necessary.

When this is not possible and the deterioration in the customer's financial position leads to its insolvency, even if not yet ascertained at judicial level and regardless of the existence of guarantees, the customer's entire position is transferred to the Legal Affairs Office so that legal recovery actions can be commenced, after cancellation of any credit facilities and the related reclassification as non-performing.

The bank's support of the local economy was not limited to the above lending transactions during the year as it also developed its asset brokerage business.

The following activities were carried out:

Leases: the bank continued its operations in the finance lease sector through its operating agreements with Leasint S.p.A. (of the Intesa Sanpaolo group), leading to the finalisation of 40 contracts worth € 4,065 thousand.

Credit cards: the bank was heavily involved in this sector with a total of 17,282 credit cards issued at year end, an increase of 1,509 on the previous year end. It recalled 7,914 multifunction cards issued to customers in previous years and also continued to issue Eura cards with 4,069 cards issued at year end, a slight decrease on the 4,157 issued in the previous year.

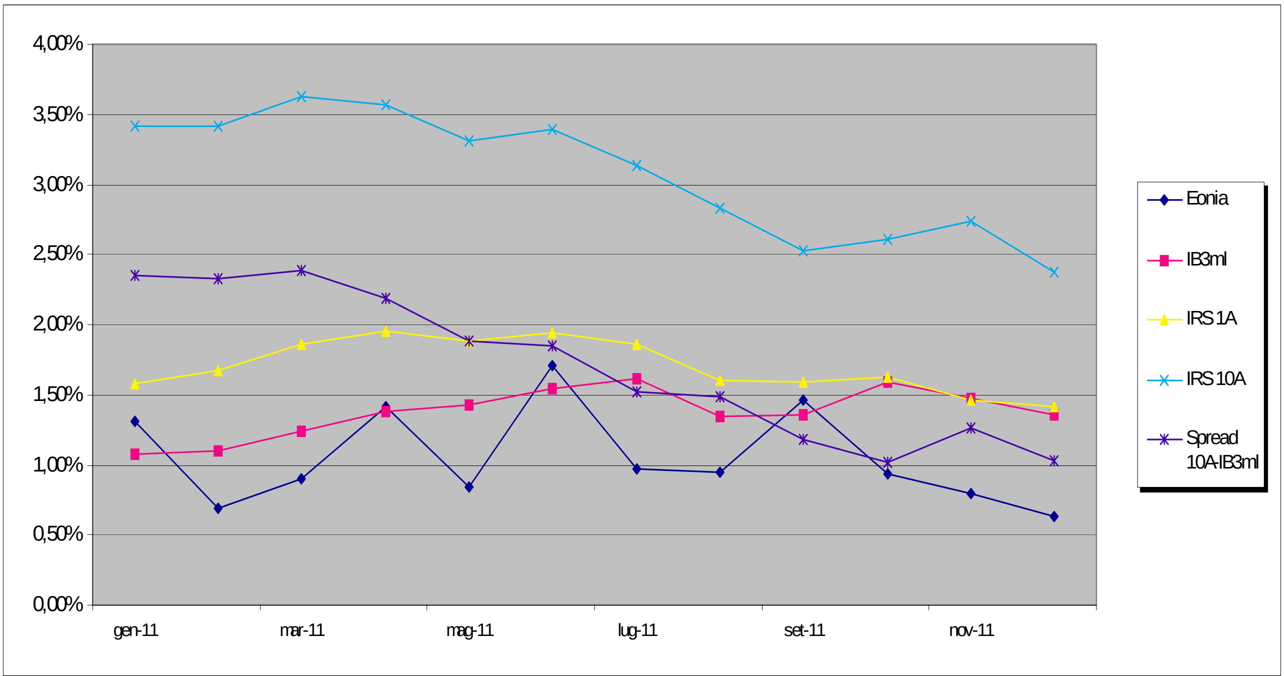
Investments

As noted earlier, 2011 was characterised by an overall bending trend in market interest rates. As a result of the sovereign debt crisis, however, market rates lost their traditional importance given the large increase in spreads and domestic rates which became the key rates for banks.

The 3-month Euribor was roughly 1.5% at year end, fluctuating within a range of between 1% and 1.5%, while the EONIA rate, which is much more sensitive to the ECB's marginal refinancing transactions, continued to fluctuate at around 0.5%.

As can be seen in the following graph, while the 3-month interbank rate climbed slowly, the 10-year swap rate reflected the drop in yields on the Bund, perceived as the safety net by the market, and thus acquired in bulk.

The difference between the 10-year swap rate and the 3-month Euribor decreased sharply from 250 bp at the start of the year to 100 bp at 31 December 2011.



The bank's financial investments are wholly comprised of government bonds (more than 50%) and senior bonds issued by major Italian and international banks.

Given the nature and objectives of its securities portfolio, the bank's investment policy is to maintain both market and counterparty risk at very low levels.

The ongoing assessments of risk using the VaR model showed that it remained within the limits set by the board of directors.

The bank's investment choices and resource allocation decisions meant that the average life of its investments was one year and 24 days at year end and its portfolio has an average remaining duration of three years and 308 days.

In line with its decisions made upon first-time adoption of the international financial reporting standards (IFRS) and following the 2008 amendment to IAS 39, the bank classified its entire securities portfolio at the reporting date in line with each financial instrument's objective.

The bank's involvement in open market operations called by the ECB led to the acquisition of short-term government bonds, not held for trading and thus classified as available-for-sale.

Accordingly and with the sole exception of the bonds issued by the Italian government (nominal amount of € 5 million), classified as a held-to-maturity (HtM) investment and which had previously been recognised as a non-current security under Legislative decree no. 87/1992, the rest of the portfolio is either classified as held for trading (HFT) or available-for-sale (AFS).

A breakdown of the fixed-income securities classified in the trading and AFS portfolios and their nominal amounts is as follows:

Breakdown of bonds in the HFT and AFS portfolios Nominal amounts				
			Difference	
	31/12/2011	31/12/2010	Amount	%
BOT and Zero coupon	23,525	2,286	21,239	929.09%
CCT	168,982	186,919	-17,937	-9.60%
BTP	24,016	10,178	13,838	135.96%
Bonds	128,841	144,133	-15,292	-10.61%
Shares	6	6	0	0.00%
Total	**345,370**	**343,522**	**1,848**	**0.54%**

As a result of the upset triggered by the sovereign debt crisis described earlier, the bank's securities portfolios dropped steadily in value compared to their carrying amount to € 13,605 thousand and over € 7,861 thousand for the trading and AFS portfolios, respectively, at 31 December 2011.

The bank was unable to constantly maintain its traditional position as a lender on the interbank market during 2011, given both the different trends in lending and direct deposits and the temporary impossibility of selling its securities portfolio due to the low prices.

Furthermore, given the drastic change in the markets after July 2011, the bank extended its operating opportunities by carefully checking its credit facilities with major banks and by implementing the operating procedures which allow it to access the ECB's open market operations.

In this context, its Euro treasury activities had two objectives:

1. maintenance of suitable funds to meet payment commitments;
2. improvement of the return on its investments in line with market indexes.

The frequent resort to freeing the mandatory reserve and use of the wide range of operating solutions allowed the bank to benefit from its allocation of its available liquidity throughout the year.

It issued bonds during the year and did not deem it necessary to resort to specific hedges thereof using derivatives given the overall very modest interest rate risk.

The financial crisis, its effects and reclassification measures

The bank described the measures taken with respect to the classification and measurement of securities in its 2008 Annual Report.

Following the amendment endorsed by the relevant authorities to IAS 39 and IFRS 7 about the reclassification of financial assets, the board of directors decided that the market conditions were one of those rare circumstances which justified the reclassification of securities from one category into another.

Accordingly, it reclassified certain securities from the HFT category into the AFS category,

leading to a decrease in HFT assets while AFS assets increased from € 3,552 thousand to € 118,673 thousand at 31 December 2008.

The loss on AFS securities of € 3,359 thousand, net of deferred tax assets, at the end of 2008 was offset against equity.

At 31 December 2011, the fair value measurement of AFS debt instruments give rise to a gross impairment loss of € 11,302 thousand which, net of the related deferred tax asset, led to a negative reserve of € 7,547 thousand recognised directly against equity.

During the year, the bank sold on the market the following bonds issued by Lehman Brothers Holding Inc., which filed for Chapter 11 bankruptcy protection under the US bankruptcy law:

ISIN	Issuer	Description	Maturity	Type	Nominal amount
XS0252835110	Lehman Bros.Hold.Inc.	L.B. 04/05/2006 - 04/05/2011 FRN	05/05/2011	Senior	1,000,000
XS0282937985	Lehman Bros.Hold.Inc.	L.B. 22/01/2007 - 05/02/2014 FRN	05/02/2014	Senior	3,000,000

The sales price was higher than the bonds' carrying amount at 31 December 2010 and, therefore, the bank made a modest trading profit.

Equity investments

The bank has recognised its non-controlling interests in banks, financial and commercial companies in the AFS portfolio even though it intends to hold on to these investments in the long term.

During the year, the bank participated in Intesa Sanpaolo's recapitalisation, converting its rights into ordinary shares for € 12 thousand. The adverse price trend for the Intesa Sanpaolo shares led to an impairment loss of € 24 thousand.

At 31 December 2011, the bank's investment in this investee amounted to € 3,611 thousand.

The annexes to the financial statements show a list of the bank's equity investments at year end.

Funding

During the year, the bank's direct funding, measured at its carrying amount, underwent the following changes:

Breakdown of direct funding by product							
				Half year difference		Annual difference	
	31/12/2011	30/06/2011	31/12/2010	Amount	%	Amount	%
Savings deposits	132,811	142,805	150,217	- 9,994	-7.0%	- 17,406	-11.6%
Current accounts	709,966	674,649	689,533	35,317	5.2%	20,433	3.0%
Repos	12,197	63,587	65,553	- 51,390	-80.8%	- 53,356	-81.4%
Certificates of deposit	58,530	41,979	47,328	16,551	39.4%	11,202	23.7%
Bonds	247,015	259,814	225,330	- 12,799	-4.9%	21,685	9.6%
Total direct funding	**1,160,519**	**1,182,834**	**1,177,961**	- **22,315**	**-1.9%**	- **17,442**	**-1.5%**

Overall, direct funding amounted to € 1,160,519 thousand (year-end carrying amount), down 1.5% or € 17,442 thousand on an annual basis. The decrease was sharper in the second half of the year as shown in the above table.

On the other hand, the average cash balance was substantially stable on an annual basis.

There were numerous issues about fund management during 2011. To start with, the legislative framework has never been so uncertain. The main changes in the laws and rules are as follows:

a. Change in the taxation of managed funds, from an accruals basis to a cash basis;
b. Change in the taxation of financial annuities;
c. Rise in the stamp duty on securities deposits.

Moreover, growing uncertainty about financial market trends led to considerable confusion among a large part of the customers, who adopted wait and see approaches, preferring short-term investments while waiting to see whether other investment opportunities materialised, despite the large increase in the risk premium as mentioned earlier.

This explains the rise in current account overdraft runs while the older savings deposits have continued to lose ground, both on a half year and annual basis.

Bonds gained attractiveness, mostly due to the bank's requirement to at least partially adjust the return on its products to those of its competitors, confirming its traditional policy of promoting transparency and simplicity of the products offered.

Given the considerable confusion reigning on the markets, the bank's bonds with the above characteristics, together with its solid reputation (including abroad), were positive factors for the placing of bond issues on the primary market where bonds as a whole gained 9.6% on an annual basis, equal to € 247,015 thousand.

The bank's overall financial position, its funding policy and access to the ECB open market operations allowed it to maintain maximum prudence even with competitors' borderline transactions, thus avoiding undesirable increases in the cost of funding.

Deposit books declined in popularity steadily during the year to € 132,811 thousand, down 11.6%, while certificates of deposit gained ground (+23.7%) to € 58,530 thousand on the previous year, partly thanks to the innovated dematerialised certificates.

Repos continued to decrease down € 53,356 thousand or 81.4% to € 12,197 thousand at year end, partly due to the adverse effects of the stamp duty law.

Current accounts grew by € 20,433 thousand (+3.0%) to € 709,966 thousand, confirming their position as customers' preferred short-term funding product at 61% of the entire direct funding.

As a result, this sector was the object of much attention leading the bank to offer innovative products and services such as on-line trading or the expansion of the operations that can be carried out at ATMs which are the natural reference point for current account transactions.

The bank monitored and revised the conditions offered to customers unceasingly so as to keep them in line with market requirements. This included the ongoing amendment of contractual terms and conditions in order to improve customer relationships and launch new commercial projects.

Bonds issued by the bank during the year maintained their standard characteristics. It did not issue subordinated bonds.

At year end, outstanding bonds equalled roughly 21% of the entire direct funding and, net of repurchased bonds, amounted to € 247,015 thousand.

The average financial duration of the issued bonds is one year and 181 days, while the average outstanding duration is one year and 270 days.

At 31 December 2011, the bank had 24 bond issues, described in the annexes to the financial statements. Twelve issues matured during the year while nine new issues were placed with the financial characteristics established in the prospectus approved by Consob and valid from time to time.

Indirect funding at year end may be analysed as follows:

	31/12/2011	30/06/2011	31/12/2010	Half year difference		Annual difference	
				Amount	%	Amount	%
Government bonds	358,541	341,105	310,734	17,436	5.11%	47,807	15.39%
Bonds	174,283	193,489	215,413	-19,206	-9.93%	-41,130	-19.09%
Shares	108,048	120,196	130,729	-12,148	-10.11%	-22,681	-17.35%
Funds and OEICs	172,964	190,217	189,837	-17,253	-9.07%	-16,873	-8.89%
Asset management	32,283	33,762	36,346	-1,479	-4.38%	-4,063	-11.18%
Total indirect funding	***846,119***	***878,769***	***883,059***	***-32,650***	***-3.72%***	***-36,940***	***-4.18%***
Insurance and pension products	154,163	150,598	147,183	3,565	2.37%	6,980	4.74%
Total	**1,000,282**	**1,029,367**	**1,030,242**	**-29,085**	**-2.91%**	**-29,960**	**-2.91%**

Indirect funding, consisting of administered and managed funds, decreased slightly at year end to € 846,119 thousand.

If the analysis is extended to include insurance and pension products, indirect funding increases to € 1,000,282 thousand, down € 29,960 thousand or 2.91% on 31 December 2010.

A breakdown of indirect funding, compared to that at 31 December 2010, shows customers' growing interest in financial and counterparty risk-free investment products, i.e., in products with very prudent profiles. The dramatic rise in interest rates on government bonds, as a result of the higher spreads compared to the Bund, affected customer confidence somewhat although it has remained high.

The corporate bond sector on the other hand lost ground significantly at € 174,283 thousand compared to € 215,413 thousand at 31 December 2010. This trend should be considered in conjunction with the bank's policy of promoting its own bonds rather than those issued by other national issuers.

Share custody services decreased to € 108,048 thousand against € 130,729 thousand at 31 December 2010. As in the past, this form of funding is very sensitive to changes in stock exchange indexes and, therefore, it was adversely affected by the sharp upturn in prices during 2011.

With respect to fund management, customers' interest in mutual funds and OEICs decreased to € 172,964 (-8.9%) compared to € 189,837 thousand at the end of 2010.

Altogether, the year-end net funding balance confirms the sector trend which reflects the general figures for the Italian fund management business.

In terms of net funds collected, the fund management sector decreased by € 16,873 thousand for funds and OEICs and by another € 4,036 thousand for asset management services.

At 31 December 2011, the percentage of managed funds compared to the entire indirect funding was 24.2% against 25.6% at the end of 2010.

The bank continued to offer life insurance products of the Banca Intermobiliare group and Arca Vita during the year alongside the similar range proposed by Intesa Vita.

Finally, life policies and open pension fund products increased by 3.0% or € 6,980 thousand on an annual basis.

INCOME STATEMENT

The following table summarises the key income statement figures, using the same reclassification criteria adopted in previous years:

	2011	2010	Difference	
			Amount	%
Net interest income	36,631	34,431	2,200	6.39%
Net operating income	47,625	51,867	-4,242	-8.18%
Operating costs	-44,999	-45,864	865	-1.89%
Operating profit	2,626	6,003	-3,377	-56.26%
Pre-tax profit from continuing operations	405	5,314	-4,909	-92.38%
Profit for the year	133	2,244	-2,111	-94.07%

The individual balances are shown below:

Net interest income

	2011	2010	Difference	
			Amount	%
Interest income:				
- Ordinary customers	41,785	38,334	3,451	9.00%
- Securities portfolio	7,060	4,823	2,237	46.38%
- Banks	463	391	72	18.41%
Interest expense:				
- Ordinary customers	-5,705	-3,526	-2,179	61.80%
- Bonds	-6,737	-5,560	-1,177	21.17%
- Banks	-235	-31	-204	658.06%
Net interest income	**36,631**	**34,431**	**2,200**	**6.39%**

Net interest income was up a very positive 6.4% or € 2,200 thousand on 2010.

It requires analysis by component (customers and financial items).

Net interest income with respect to ordinary customers came to € 29,344 thousand for the year compared to € 29,248 thousand for 2010, an increase of 0.33%.

With respect to financial investments, net interest income increased by € 2,105 thousand (+40.3%) to € 7,288 thousand compared to € 5,182 thousand for 2010.

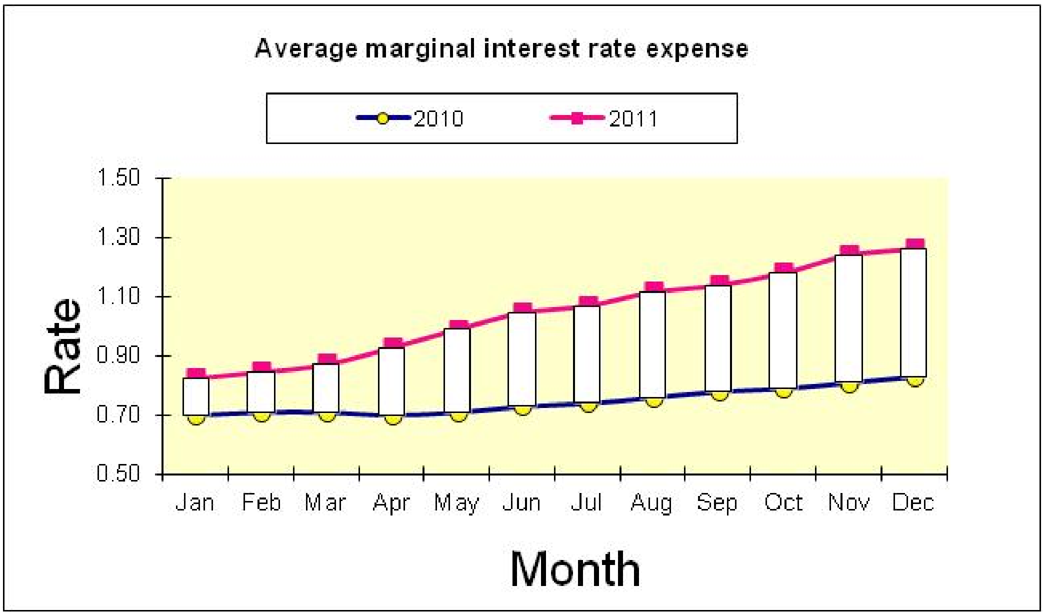
This result is mainly due to the caption's composition which allowed the bank to benefit from the sharp upturn in interest rates on government bonds during the year, leading to the better returns which nearly entirely explains the better net interest income.

The sudden contraction in spreads between the return on Italian government bonds compared to that on the German Bund, perceived as a risk-free investment by the market, had a follow-on effect on interest rates paid and received which, in turn, heavily affected interest income and expense.

Specifically, the increase in interest income from customers of € 3, 451 thousand was countered by a rise of € 2,179 thousand in interest expense paid to ordinary customers together with the higher interest expense on bonds of € 1,177 thousand.

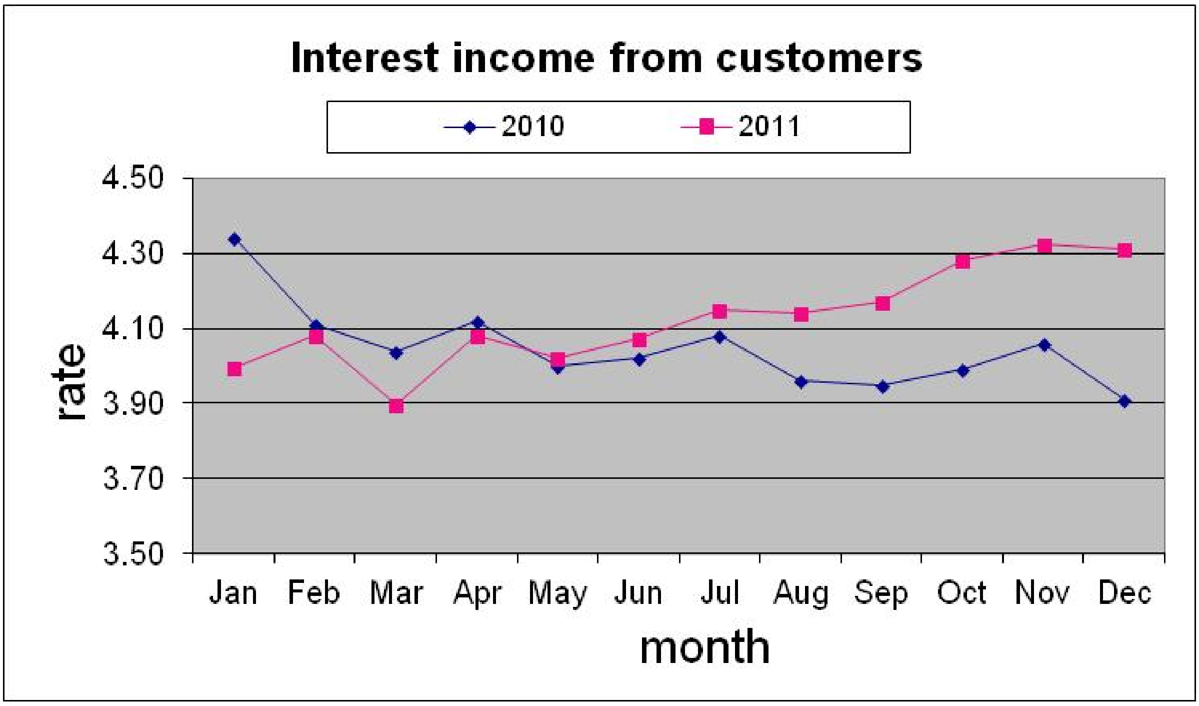
The average annual rate paid on direct funding was 1.04% compared to the average 0.75% at the end of 2010, an average rise of 29 bp, and the 2011 year-end rate was 1.26%.

The following graph shows interest rate trends in 2011 and 2010:

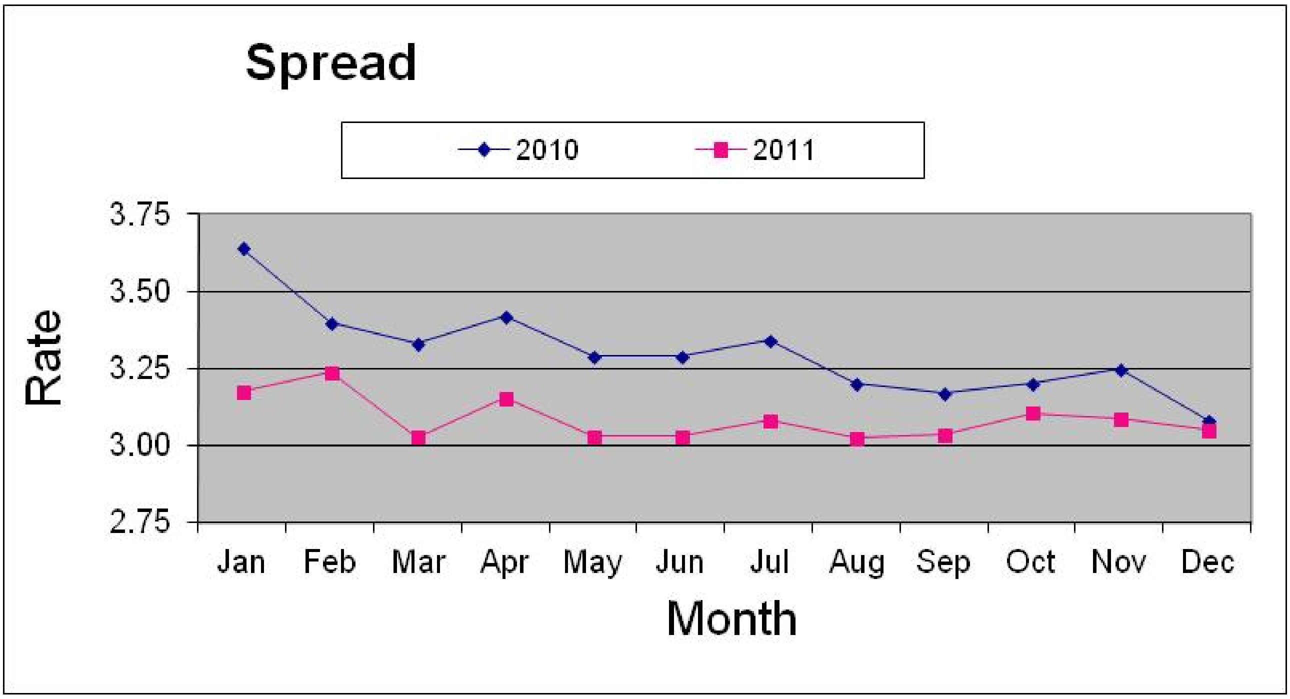


It shows a large rise in interest rates payable, mainly in the second half of the year.

Interest income from ordinary customers, shown in the following graph, went from an average 4.05% in 2010 to an average 4.13% at the end of 2011, with an average increase of 8 bp, mostly seen in the last quarter of the year:



The 2011 spread on average rates applied to ordinary customers was generally below that of 2010 as shown in the following graph:



NET OPERATING INCOME

	2011	2010	Difference	
			Amount	%
Net interest income	**36,631**	**34,431**	**2,200**	**6.39%**
Dividends	195	262	-67	-25.57%
Net fee and commission income	19,333	19,816	-483	-2.44%
Net trading expense	-13,242	-6,396	-6,846	107.04%
Net losses on financial assets and liabilities at fair value through profit or loss	-3	-14	11	-78.57%
Other operating income	4,711	3,768	943	25.03%
Net operating income	**47,625**	**51,867**	**-4,242**	**-8.18%**

Net operating income decreased by € 4,242 thousand to € 47,625 thousand for 2011.

There was a significant drop in dividends from € 262 thousand in 2010 to € 195 thousand, partly due to the bank's policy of selling equity investments no longer held to be strategic.

Net fee and commission income decreased slightly on 2010, going from € 19,816 thousand to the current € 19,333 thousand, down € 483 thousand or 2.4%.

The largest contributor to this decrease was the securities placement business which lost € 955 thousand on an annual basis, considering the bank's steady move away from placing other issuers' securities, successfully developed in previous years, given the need to boost direct funding by promoting primarily the bank's own issues.

On the other hand, current account management services increased by € 354 thousand.

Net trading expense dropped from € 6,396 thousand to € 13,242 thousand (-€ 6,846 thousand), which heavily affected the profit for the year.

This caption was particularly affected by the fair value measurement of financial assets held for trading.

Indeed, net losses at the end of 2010 came to € 7,831 thousand compared to net losses of € 13,605 thousand for 2011.

The financial assets most affected by impairment losses included the treasury certificates (CCT), the prices of which tumbled after the public debt crisis of certain EU states, and the government bonds held in the bank's securities portfolio.

As an explanation of the above, income from financial transactions (caption 80 of the income statement) may be broken down as follows:

1. Income from securities trading of € 300 thousand;
2. Net exchange rate gains of € 132 thousand;
3. Trading income on OTC derivatives of € 86 thousand.

OPERATING PROFIT

	2011	2010	Difference	
			Amount	%
Net operating income	**47,625**	**51,867**	**-4,242**	**-8.18%**
Personnel expense	-27,494	-28,169	675	-2.40%
Administrative expenses	-16,164	-16,297	133	-0.82%
Amortisation and depreciation	-1,341	-1,398	57	-4.08%
Operating costs	**-44,999**	**-45,864**	**865**	**-1.89%**
Operating profit	**2,626**	**6,003**	**-3,377**	**-56.26%**

The operating profit for the year was € 2,626 thousand compared to € 6,003 thousand for 2010.

The caption includes a decrease in both personnel expense (€ 675 thousand or 2.4%), following the € 532 thousand decrease seen in 2010, and other administrative expenses (€ 133 thousand, 0.82%).

The reduction in personnel expense was mainly due to:

1. Decrease in the workforce to 403 employees from the previous 412;
2. Reduction in the benefits paid to the supplementary pension fund;
3. Reduction in the 2011 bonus to be paid in 2012 as per the current contractual terms which ties the bonus to the bank's results.

Other administrative expenses, also down on the previous year, came to € 16,164 thousand. The most significant decreases were seen in the following sub captions:

1. Advertising and promotion costs, from € 555 thousand to € 480 thousand;
2. Maintenance, repair and conversions, from € 878 thousand to € 744 thousand;
3. Car hire costs and data transmission lines, from € 1,382 thousand to € 1,264 thousand;
4. Postal and telegraph, from € 716 thousand to € 602 thousand.

The following captions, however, increased significantly:

1. Consultancy, from € 628 thousand to € 762 thousand;
2. Premises lease, from € 1,107 thousand to € 1,137 thousand.

Depreciation, amortisation and net impairment losses on property, equipment and investment property and intangible assets dropped slightly to € 1,341 thousand.

PRE-TAX PROFIT FROM CONTINUING OPERATIONS

	2011	2010	Difference	
			Amount	%
Operating profit	**2,626**	**6,003**	**-3,377**	**-56.26%**
Net accruals to provisions for risks and charges	-196	-183	-13	7.10%
Net impairment losses on loans	-2,043	-460	-1,583	344.13%
Net impairment losses on other assets	0	-57	57	0.00%
Net gains on held-to-maturity and other investments	18	11	7	63.64%
Pre-tax profit from continuing operations	**405**	**5,314**	**-4,909**	**-92.38%**

The pre-tax profit from continuing operations decreased to € 406 thousand.

Net accruals to provisions for risks and charges of € 196 thousand reflect the bank's prudent evaluation of the higher risks of ongoing legal disputes and claw-back claims as well as operating risks and charges and potential risks on endorsement credits.

Loans to ordinary customers were measured using the methods set out in the notes to the financial statements with the usual prudent approach.

Impairment losses on irregular loans were recognised considering the borrowers' objective repayment difficulties and the intrinsic value of the underlying guarantees. The bank estimated the possible recovery times of the loans, considering the frequent resort to term negotiations, and made additional discounts.

The collective impairment losses considered the implicit risk of the different business segments using historical and forward-looking statistics. These collective impairment losses cover 0.98% of the loans.

Overall, the bank had to counter the drop in credit quality by recognising larger impairment losses of € 7,703 thousand, offset however by reversals of impairment losses of € 5,633 thousand for a net balance of € 2,043 thousand compared to € 460 thousand for 2010.

PROFIT FOR THE YEAR

	2011	2010	Difference	
			Amount	%
Pre-tax profit from continuing operations	**405**	**5,314**	**-4,909**	**-92.38%**
Income taxes	-272	-3,070	2,798	-91.14%
Profit (loss) from discontinued operations	0	0	0	0.00%
Profit for the year	**133**	**2,244**	**-2,111**	**-94.07%**

As disclosed in section 18 of Part C of the notes, direct IRES and IRAP taxes for the year came to € 1,397 thousand compared to € 2,957 thousand for 2010 due to the significant decline in the IRES tax base of an estimated € 259 thousand compared to € 5,201 thousand for the previous year.

The bank derecognised the effects of fiscally-driven entries by calculating deferred tax assets and liabilities. This gave rise to new deferred tax assets, net of those recognised in previous years, of € 175 thousand, mainly arising on the taxed provision for risks and charges.

After analysing the tax expense for the year, the provision for taxation was found to be excessive by € 1,300 thousand. The bank accordingly reversed the excess amount to the relevant caption.

Accordingly, the profit for the year amounted to € 134 thousand.

In order to better present the bank's real performance, consistently with the presentation in the 2010 Annual Report, the profit for 2011 in the following table is shown net of unrealised fair value gains/losses on securities and the non-recurring items that affected the year-on-year comparison presented in the previous table:

	2011	2010
Profit for the year	**133,746**	**2,244,118**
(-) Gains/losses on securities	13,604,726	7,831,463
(+) Tax effect	-4,496,362	-2,529,563
(+) Utilisation of provision for taxation	-1,300,000	0
(-) Change in 2011 IRAP rate	193,163	0
Adjusted profit for the year	**8,135,273**	**7,546,018**

This table shows that the adjusted profit for 2011 is 7.8% better than that for 2010.

The statement of comprehensive income for 2011, net of the net losses of € 5,190 thousand on the AFS securities recognised directly in equity, shows comprehensive expense of € 5,057 thousand.

CASH FLOWS

The statement of cash flows is included in the financial statements and has been prepared using the indirect method as allowed by IAS 7.

Cash flows generated and used during the year, split between operating, investing and financing activities, clearly show the high contribution offered by evaluative component in trading activities.

Financial assets used large cash flows of € 76,742 thousand, mostly due to the rise in loans to customers.

Changes in financial liabilities reflect the drop in customer funding which decreased cash flows by € 16,188 thousand offset by the increase of € 102,032 thousand in amounts due to banks, principally related to use of the credit facilities made available by the ECB.

Net cash flows generated by operating activities thus amounted to € 2,001 thousand compared to € 7,633 thousand for 2010.

Investing activities used funds of € 959 thousand, due to the purchase of property, equipment and investment property for € 964 thousand compared to sales of € 21 thousand.

Financing activities used cash flows of € 1,519 thousand compared to € 7,597 thousand in 2010, entirely due to the 2010 distribution of dividends of € 2.00 per share.

As a result, the net cash flows for the year were a shortfall of € 478 thousand.

INDICATORS

The customary analysis using financial statements indicators is set out in the following table:

Financial statements indicators	2011	2010
Capitalisation ratios:		
Equity/total assets	9.65%	10.33%
Core tier 1	12.26%	13.61%
Total capital ratio	13.70%	15.16%
Non-current assets/equity	13.38%	13.25%
Net non-performing loans/equity	17.84%	12.85%
Own funds/third-party funds	12.14%	12.34%
Risk ratios:		
Net non-performing loans/loans	2.38%	1.89%
Collective impairment losses/performing loans	0.98%	1.08%
Allowance for impairment/total loans	3.08%	3.11%
Profitability ratios:		
Net interest income/total income	85.36%	71.58%
Income from financial transactions/total income	-15.50%	-13.83%
Gross operating profit/equity	1.87%	4.13%
Profit/equity	0.10%	1.54%
Profit/total assets	0.01%	0.16%
Tax ratio	67.00%	57.76%
Net other administrative expenses/total income	26.22%	26.05%
Personnel expense/total income	64.53%	58.56%
Administrative expenses/total income	90.75%	84.61%
Cost/income	93.88%	87.52%
Costs/gains on fair value measurement of securities	71.21%	75.26%
Administrative expenses/total assets	2.99%	3.16%
Productivity - Distribution efficiency		
Loans to customers/employees	2,618	2,395
Due to customers/employees	2,873	2,852
Total income/average employees	105.053	115.901
Average employees/branches	6.924	7.034
Cost per employee	65.41	65.90
Loans to customers and due to customers/average employees	5,430	5,222
Loans to customers and due to customers/branches	37,598	36,728
Branch employees/employees	70.79%	70.46%

Changes in the financial statements captions can be seen by the indicators split into four macro areas representing the bank's core business.

Specifically, all the indicators for the bank's capitalisation continued to be very positive in 2011, although available internal resources were used less sparingly.

The Tier 1 capital ratio is 12.06%, confirming the fundamental importance of its capitalisation to the bank and its risk assumption policy, aimed at matching exposure more to own funds than to extending debt. The reduction is mostly a result of the losses on AFS securities, which decreased the regulatory capital.

The credit risk indicators show the high coverage level and overall quality of the net non-performing/performing loans ratio, which continues to be modest at 2.38%, higher than that for the previous year given the fragile economic situation. The performing loans indicator is also satisfactory at 0.98% against 1.08% for the previous year.

The bank's profitability profile is clearly conditioned by:

1. very significant fair value losses on financial assets compared to the previous year;
2. the improvement achieved by cutting administrative expenses although the impact is less than that of the fair value measurement of the trading securities.

As a result, the cost/income ratio is 93.88%, but net of the unrealised fair value gains/losses on securities, is 71.2% compared to 75.2% in 2010, confirming the distorting effect of the securities measurement when analysing this year's results.

A glance at the efficiency indicator shows constant, steady and widespread improvement for all the relevant ratios.

Objectives: have they been met?

The bank avails of two tools which operate independently as part of its corporate governance system: the business plan and the annual budget.

The bank has made progress with the objectives included in the business plan, which covers the period to 31 December 2012, aimed at improving general efficiency. Such progress has included:

1. Introduction of an new Internal Services Guide;
2. Commencement of the Open Bank project;
3. Outsourcing of low value added services.

With respect to the objectives for the bank's operations and profitability, it should be noted that the general economic climate and forecasts made in 2009 when the board of directors prepared and approved the business plan and envisaged a generalised relaunch of the economy, especially in those developed countries after the devastating consequences of the 2008 banking crisis, were actually light years away compared to what actually happened in the first two years covered by the plan.

The shock about the vulnerability of the sovereign states' debt, especially in the Euro zone, previously considered to be untouchable, could not have been foreseen. The far-reaching consequences of this alarming fact led to the subsequent spiralling of the financial and economic crisis, an end to which has still not been seen and which was felt in full in 2011.

Despite all this:

lending, including the allowance for impairment, estimated to amount to €1,095,545 thousand at year end, actually came to € 1,094,333 thousand, fully in line with forecasts;

direct funding was estimated to amount to € 1,313,921 thousand and actually came to € 1,158,450; the difference of € 155,471 thousand was mainly due to households' inability to put away new savings;

indirect funding was estimated to amount to € 1,192,325 thousand compared to the actual € 1,000,282 thousand; the difference of € 192,043 thousand was again mainly due to households' financial difficulties.

Profits were strongly and directly affected by the adverse, unpredictable financial market conditions. Therefore, it is worthwhile to look at the captions excluding the effects of the fair value measurement of the trading portfolio. The restated figures are summarised in the following table:

	Plan	Actual
Net interest income	37,442	36,631
Revenue from services	20,409	19,333
Other revenue	2,627	4,729
Net trading income	674	554
Total income	**61,152**	**61,247**
Administrative expenses	- 16,884	- 16,164
Amortisation and depreciation	- 1,405	- 1,341
Personnel expense	- 28,642	- 27,494
Operating profit	**14,221**	**16,248**
Impairment losses/reversals of impairment losses	- 2,868	- 2,239
Pre-tax profit from continuing operations	**11,353**	**14,009**
Income taxes	- 3,967	- 5,875
Profit for the year	**7,386**	**8,134**

The table clearly shows that the bank exceeded its objectives, mainly consisting of significantly cutting operating costs as described earlier in this report.

An analysis of the regulatory capital should be based on the same reasonings as that underlying the examination of the income statement captions as any deviation from the plan forecasts not caused by the external variables, described exhaustively earlier, is worthy of attention and requires correction to the bank's policies.

That being said, forecast equity at 31 December 2011 was estimated at € 150,884 thousand compared to the actual € 140,988 thousand, to which the fair value reserve of the AFS portfolio should be added. This would adjust equity to € 148,535, which is also affected by the smaller profit levels in 2010 and 2011, in turn heavily affected by the same adverse conditions impacting the financial markets.

The 2011 budget was prepared considering a worsening in the financial crisis affecting the debt of some of the peripheral Euro zone countries, including Italy.

The board of directors had considered the effects of this crisis solely in terms of a deterioration in credit quality. It had intentionally excluded an assessment of the impacts of the financial crisis, given the extremely volatile market prices.

Accordingly, the 2011 budget included downwards-revised growth estimates for lending (€ 1,069,983) and direct funding (€ 1,223,562).

Therefore, lending volumes maintained the growth rate envisaged in the business plan and increased by € 24,350 thousand for the year while direct funding, on the other hand, decreased by € 65,112.

The budget decreased the business plan objectives in respect of the profit for the year and forecast a profit of € 5,214 thousand.

As disclosed earlier, the adjusted profit for the year is € 8,134 thousand, which is well above the budget figure.

Banca d'Italia/Consob/Isvap (the Italian Insurance Companies Supervisory Authority) document no. 2 of 6 February 2009

The directors note that they have assessed the bank's profitability and liquidity for a period of not less than 12 months from the reporting date based on the business plan, the 2011 budget and all other available information.

With respect to the bank's liquidity, the board of directors confirms the following management guidelines:

1. Revision of the internal procedures so as to take part in the ECB auctions;
2. Recognition of the state guarantees pursuant to article 8 of Law decree no. 201/2011 and concurrent issue of collateralised bonds with the ECB;
3. Ongoing alignment and monitoring of interbank credit facilities;
4. Maintenance of a lending/funding ratio always below the 90% threshold identified by the board of directors as prudent.

With respect to the bank's profitability, the board of directors believes that, despite this difficult economic period, the bank has appropriate profitability margins for the near and far future notwithstanding increasingly volatility in its results due to changed economic conditions and application of the IFRS. It is sufficient to consider the following:

a. The bank has never made a loss despite other unfavourable economic periods;
b. Its market share is sufficient and its local ground roots have actually been strengthened by the unfavourable climate;
c. Its high capitalisation and prudent approach are a solid basis for dealing with any future risks;
d. Excluding the results of the fair value measurement of securities, the bank continues to improve its results as clearly demonstrated in this report.

It can, therefore, clearly be seen that the going concern assumption is fully met without having to provide any more detail.

Banca d'Italia document no. 0195651/10 of 5 March 2012

This communication focuses on banks' capitalisation in light of their requirement for funds as a result of the current recession.

The central bank expects bank bodies to adopt strict and transparent criteria for the measurement of financial statements captions and to earmark most of their profits to equity.

In full compliance with these instructions, the bank has built up its risk monitoring activities in line with its objective of maintaining high capitalisation levels.

This proper policy, monitored continuously to focus on the bank's capitalisation, lead to the very acceptable total capital ratio and Tier 1 capital ratio.

Outlook

Based on the scenario proposed during approval of the 2011 budget and considering the significant changes in the business sectors most hard hit by the current difficult economic climate, the bank will conclude or continue certain macro organisational projects during 2012 such as:

- ✓ Roll out of certain branches as "Open Banks" with the relevant technology;
- ✓ Introduction of the contractual procedure to allow rapid and automated access to and use of contractual documentation by the tellers;

- ✓ Stepping up the property rationalisation programme.

The crisis which exploded at the end of 2008 and has continued, although at a lesser rate, into 2012 leads to uncertainty about the bank's future activities and results in terms of net interest income, its finances and credit risk management.

It is clear that, thanks to the bank's strong financial position and cash flows, it is in a less critical situation than some other Italian banks. Indeed, it will continue to assist local businesses, as is part of its mission with increasing focus on acquiring more funding.

In purely operational terms, the bank intends to:

- Increase direct funding, both in current accounts, thanks to the natural expansion in on-line services which are well met by the market thanks to their quality and security, and in bonds, which tend to stabilise funding flows;
- Increase its lending activities with companies and households at rates in line with the current economic conditions and rising interest rates on direct funding;
- Increase administered funds, exploiting its technological tools to provide tailored services to customers without, however, penalising certain managed funds sectors designed to allow customers to benefit from an upturn in securities prices.

Based on the 2012 budget reviewed by the board of directors and communicated by the Management Accounts Office to all the bank's offices, the bank foresees:

- A pick up in net interest income, mostly as a result of the upturn in the market interest rate curve and the planned increase in volumes handled;
- An increase in fee and commission income; the bank believes that there is ample room for an increase in income from fund management, insurance and order collection services. The trading derivatives business is also expected to grow significantly generating considerable fee and commission income, which will assist maintenance of high service standards;
- An improvement in income from the trading of securities, which should be strengthened by the higher prices of securities traded.
- Smaller operating expenses, due to the scheduled and ongoing related measures;
- A smaller increase (compared to 2011) in irregular loans and the related risk as a direct outcome of the economic crisis referred to many times in this report.

The bank will especially focus on improving the quality of its distribution channels and its on-line channel in particular. The "Open Bank" branches will contribute significantly to this objective thanks to their greater capacity for commercial development.

Products and services on offer will be aimed at those business segments traditionally served by the bank, that is, households and producers, artisans and SMEs without, however, forgetting the stimulating and mutually profitable relationship with larger size companies.

PROPOSED ALLOCATION OF THE PROFIT FOR THE YEAR

Dear shareholders,

As described, the profit for the year amounts to € 133,746. Pursuant to the relevant laws and article 24 of the by-laws, we propose it be allocated as follows:

- 10% to the legal reserve	13,375
- 15% to the statutory reserve	20,062
- to the shareholders as a dividend of € 0.00 per share	0
- the remainder to the statutory reserve	100,309
- TOTAL PROFIT FOR THE YEAR	**133.746**

Therefore, should you approve the financial statements and the related proposed allocation of the profit for the year as set out above, the bank's equity will amount to € 140,988,361 as follows:

	Amount
Share capital	39,241,087
Share premium	34,660,068
Income-related reserves	59,512,638
Valuation reserves	7,574,568
Total	**140,988,361**

After the allocation set out above pursuant to article 24 of the by-laws, the legal reserve, which amounted to € 14,865,288 at 31 December 2011, will amount to € 14,878,663 and will thus exceed one fifth of the share capital as per article 2430 of the Italian Civil Code by € 7,030,446.

CONCLUSIONS

We would like to warmly thank all our customers that have chosen Cassa di Risparmio di Fermo S.p.A. as their bank in a difficult year allowing us to record another positive result.

The bank's activities are those set out by the Fondazione Cassa di Risparmio di Fermo which are its reference point and guiding light. The ongoing valuable relationship with the parent Intesa Sanpaolo contributes value to this.

We are deeply appreciative of the managing director's expert assistance provided to the board of directors.

We would also like to sincerely thank all the bank's employees, convinced that they are the winning factor in allowing us to fully meet our objectives.

The precious assistance provided by the board of statutory auditors is also worthy of mention.

Finally, we would like to express our gratitude to the supervisory authorities and, especially, the Ancona branch manager, Cosimo Centrone, and the Ascoli Piceno branch manager, Maurizio Grassini, for their availability as well as all the personnel at those branches for their assistance.

On behalf of the board of directors
The Chairman
(signed on the original)

Fermo, 27/03/2012

STATEMENT OF FINANCIAL POSITION: ASSETS

	Assets	31/12/2011	31/12/2010
10.	Cash and cash equivalents	11,687,416	12,165,571
20.	Financial assets held for trading	188,168,357	205,465,531
30.	Financial assets at fair value through profit or loss	-	-
40.	Available-for-sale financial assets	116,017,217	117,910,988
50.	Held-to-maturity investments	5,038,035	5,030,381
60.	Due from banks	27,491,446	21,589,633
70.	Loans to customers	1,057,741,761	989,002,942
80.	Hedging derivatives	-	-
90.	Adjustments to generically hedged financial assets	-	-
100.	Equity investments	-	-
110.	Property, equipment and investment property	18,776,787	19,148,287
120.	Intangible assets	71,693	107,665
	including: - goodwill	-	-
130.	Tax assets	11,221,081	15,054,194
	a) current	*3,721,972*	*9,932,180*
	b) deferred	*7,499,109*	*5,122,014*
140.	Non-current assets classified as held for sale and disposal groups		
150.	Other assets	23,975,870	20,766,297
	Total assets	**1,460,189,663**	**1,406,241,489**

STATEMENT OF FINANCIAL POSITION: LIABILITIES

	Liabilities and equity	31/12/2011	31/12/2010
10.	Due to banks	111,253,881	7,421,996
20.	Due to customers	854,974,047	905,302,169
30.	Securities issued	305,544,995	270,974,483
40.	Financial liabilities held for trading	1,423,903	1,512,069
50.	Financial liabilities at fair value through profit or loss	-	1,684,573
60.	Hedging derivatives	-	-
70.	Adjustments to generically hedged financial assets (+/-)	-	-
80.	***Tax liabilities***	***2,642,798***	***5,369,893***
	a) current	*1,608,352*	*4,307,054*
	b) deferred	*1,034,446*	*1,062,839*
90.	Liabilities associated with discontinued operations	-	-
100.	Other liabilities	21,785,875	43,329,588
110.	Post-employment benefits	10,101,013	10,945,556
120.	***Provisions for risks and charges:***	***11,474,790***	***12,122,530***
	a) pension and similar obligations	9,687,818	10,531,124
	b) other provisions	1,786,972	1,591,406
130.	Valuation reserves	7,574,568	12,764,836
140.	Redeemable shares	-	-
150.	Equity instruments	-	-
160.	Reserves	59,378,892	58,668,523
170.	Share premium	34,660,068	34,660,068
180.	Share capital	39,241,087	39,241,087
190.	Treasury shares (-)	-	-
200.	Profit for the year	133,746	2,244,118
	Total liabilities and equity	**1,460,189,663**	**1,406,241,489**

INCOME STATEMENT

INCOME STATEMENT		2011	2010
10.	Interest and similar income	49,457,038	43,709,034
20.	Interest and similar expense	- 12,825,750	- 9,278,118
30.	**Net interest income**	**36,631,288**	**34,430,916**
40.	Fee and commission income	20,407,787	20,939,622
50.	Fee and commission expense	- 1,074,535	- 1,123,386
60.	**Net fee and commission income**	**19,333,252**	**19,816,236**
70.	Dividends and similar income	195,211	261,511
80.	Net trading expense	- 13,089,890	- 6,649,916
90.	Net hedging income (expense)	-	-
100.	Gain (loss) from sales or repurchases of:	- 152,203	254,348
	a) loans and receivables	-	-
	b) available-for-sale financial assets	- *92,449*	*271,858*
	c) held-to-maturity investments	-	-
	d) financial liabilities	- *59,754*	- *17,510*
110.	Net losses on financial assets and liabilities at fair value through profit or loss	- 3,343	- 13,714
120.	**Total income**	**42,914,315**	**48,099,381**
130.	Net impairment losses on:	- 2,043,200	- 517,212
	a) loans and receivables	- *2,043,200*	- *460,402*
	b) available-for-sale financial assets		- *56,810*
	c) held-to-maturity investments	-	-
	d) other financial transactions	-	-
140.	**Net financial income**	**40,871,115**	**47,582,169**
150.	Administrative expenses	- 43,657,801	- 44,465,684
	a) personnel expense	- *27,493,889*	- *28,169,084*
	b) other administrative expenses	- *16,163,912*	- *16,296,600*
160.	Net accruals to provisions for risks and charges	- 195,566	- 183,102
170.	Depreciation and net impairment losses on property, equipment and investment property	- 1,298,826	- 1,339,124
180.	Amortisation and net impairment losses on intangible assets	- 41,759	- 59,257
190.	Net other operating income	4,711,310	3,767,705
200.	**Operating costs**	**- 40,482,642**	**- 42,279,462**
210.	Gains (losses) on equity investments	-	-
220.	Fair value gains (losses) on property, equipment and investment property and intangible assets	-	-
230.	Impairment losses on goodwill	-	-
240.	Net gains on sales of investments	17,701	10,546
250.	**Pre-tax profit from continuing operations**	**406,174**	**5,313,253**
260.	Income taxes	- 272,428	- 3,069,135
270.	**Post-tax profit from continuing operations**	**133,746**	**2,244,118**
280.	Post-tax profit (loss) from discontinued operations	-	-
290.	**Profit for the year**	**133,746**	**2,244,118**

STATEMENT OF COMPREHENSIVE INCOME

		2011	2010
10.	**Profit for the year**	**133,746**	**2,244,118**
	Other comprehensive expense, net of income taxes		
20.	Available-for-sale financial assets:	- 5,190,268	- 1,784,573
	a) debt instruments	- 5,172,632	- 1,617,428
	b) equity instruments	- 17,636	- 167,145
30.	Property, equipment and investment property	-	-
40.	Intangible assets	-	-
50.	Hedges of investments in foreign operations	-	-
60.	Cash flow hedges	-	-
70.	Exchange rate gains (losses)	-	-
80.	Non-current assets held for sale	-	-
90.	Actuarial gains (losses) on defined benefit plans	-	-
100.	Portion of valuation reserve of equity-accounted investees	-	-
110.	Total other comprehensive expense, net of income taxes	- 5,190,268	- 1,784,573
120.	**Comprehensive income (expense)**	**- 5,056,522**	**459,545**

STATEMENT OF CHANGES IN EQUITY FOR 2011

STATEMENT OF CHANGES IN EQUITY

	Balance at 31/12/2010	Change to opening balances	Balance at 1/1/2011	Allocation of prior year profit		Changes in 2011						Equity at 31/12/2011
						Changes in reserves	Equity transactions				Profit for 2011	
				Reserves	Dividends and other allocations		Issue of new shares	Change in equity instruments	Derivatives on treasury shares	Stock options		
Share capital:	**39,241,087**	**-**	**39,241,087**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**39,241,087**
a) ordinary shares	39,241,087		39,241,087									39,241,087
b) other shares	-		-									-
Share premium	**34,660,068**		**34,660,068**									**34,660,068**
Reserves:	**58,668,523**	**-**	**58,668,523**	**724,618**	**-**	**- 14,249**	**-**	**-**	**-**	**-**		**59,378,892**
a) income-related	55,384,514		55,384,514	724,618		-						56,109,132
b) other	3,284,009	-	3,284,009	-		- 14,249						3,269,760
Valuation reserves:	**12,764,836**	**-**	**12,764,836**	**-**	**-**	**- 5,190,268**	**-**	**-**	**-**	**-**		**7,574,568**
a) fair value	- 2,356,932		- 2,356,932			- 5,190,268						- 7,547,200
b) hedging	-		-									-
c) monetary revaluation reserves	15,121,768	-	15,121,768									15,121,768
d) other	-	-	-			-						-
Equity instruments	**-**		**-**									**-**
Treasury shares	**-**		**-**									**-**
Profit for the year	**2,244,118**	**-**	**2,244,118**	**- 724,618**	**- 1,519,500**						**133,746**	**133,746**
Equity	**147,578,632**	**-**	**147,578,632**	**-**	**- 1,519,500**	**- 5,204,517**	**-**	**-**	**-**	**-**	**133,746**	**140,988,361**

STATEMENT OF CHANGES IN EQUITY FOR 2010

	Balance at 31/12/2009	Change to opening balances	Balance at 1/1/2010	Allocation of prior year profit		Changes in 2010						Equity at 31/12/2010
				Reserves	Dividends and other allocations	Changes in reserves	Equity transactions: Issue of new shares	Equity transactions: Change in equity instruments	Equity transactions: Derivatives on treasury shares	Equity transactions: Stock options	Profit for 2010	
Share capital:	**39,241,087**	**-**	**39,241,087**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**39,241,087**
a) ordinary shares	39,241,087		39,241,087									39,241,087
b) other shares	-		-									-
Share premium	**34,660,068**		**34,660,068**									**34,660,068**
Reserves:	**56,011,408**	**-**	**56,011,408**	**2,657,115**	**-**	**-**	**-**	**-**	**-**	**-**		**58,668,523**
a) income-related	52,727,399		52,727,399	2,657,115		-						55,384,514
b) other	3,284,009	-	3,284,009	-		-						3,284,009
Valuation reserves:	**14,549,409**	**-**	**14,549,409**	**-**	**-**	**- 1,784,573**	**-**	**-**	**-**	**-**		**12,764,836**
a) available-for-sale	- 572,359		- 572,359			- 1,784,573						- 2,356,932
b) cash flow hedges	-		-									-
c) monetary revaluation reserves	15,121,768	-	15,121,768									15,121,768
d) other	-	-	-			-						-
Equity instruments	**-**		**-**									**-**
Treasury shares	**-**		**-**									**-**
Profit for the year	**10,254,615**	**-**	**10,254,615**	**- 2,657,115**	**- 7,597,500**						**2,244,118**	**2,244,118**
Equity	**154,716,587**	**-**	**154,716,587**	**-**	**- 7,597,500**	**- 1,784,573**	**-**	**-**	**-**	**-**	**2,244,118**	**147,578,632**

STATEMENT OF CASH FLOWS: indirect method

STATEMENT OF CASH FLOWS: indirect method

A. OPERATING ACTIVITIES	Amount	
	2011	2010
1. Operations	**19,051,358**	**15,571,939**
- profit for the year (+/-)	133,746	2,244,118
- gains on financial assets held for trading and financial assets/liabilities at fair value through profit or loss (-/+)	13,592,884	7,920,857
- gains/losses on hedging activities (-/+)		-
- net impairment losses/reversals of impairment losses (+/-)	2,704,769	1,196,804
- net impairment losses/reversals of impairment losses on property, equipment and investment	1,374,660	1,450,259
- net accruals to provisions for risks and charges and other costs/revenue (+/-)	2,768,726	2,913,983
- unpaid taxes and duties (+)	272,427	3,069,135
- net impairment losses/reversals of impairment losses on disposal groups, net of the tax effect (+/-)		-
- other adjustments (+/-)	- 1,795,854	- 3,223,217
2. Cash flows generated by (used for) financial assets	**- 76,742,437**	**2,024,883**
- financial assets held for trading	5,139,436	1,713,540
- financial assets at fair value through profit or loss		
- available-for-sale financial assets	- 5,331,714	2,205,730
- due from banks: on sight	8,283,890	- 7,646,897
- due from banks: other	- 14,185,702	32,636,474
- loans to customers	- 70,971,180	- 32,987,991
- other assets	322,833	6,104,027
3. Cash flows generated by (used for) financial liabilities	**59,691,715**	**- 9,963,532**
- due to banks: on demand	1,799,921	2,758,609
- due to banks: other	102,031,964	
- due to customers	- 50,328,123	- 1,487,177
- securities issued	33,517,198	- 16,696,060
- financial liabilities held for trading		
- financial liabilities at fair value through profit or loss	- 1,626,128	- 3,915,140
- other liabilities	- 25,703,117	9,376,236
Net cash flows generated by operating activities	**2,000,636**	**7,633,290**
B. INVESTING ACTIVITIES		
1. Cash flows generated by	**20,670**	**13,527**
- sales of equity investments		
- dividends from equity investments		
- sales of HtM investments	-	-
- sales of property, equipment and investment property	20,670	13,527
- sales of intangible assets		
- sales of business units		
2. Cash flows used to acquire	**- 979,961**	**- 491,460**
- equity investments		
- HtM investments		
- property, equipment and investment property	- 964,200	- 288,020
- intangible assets	- 15,761	- 203,440
- business units		
Net cash flows used in investing activities	**- 959,291**	**- 477,933**

C. FINANCING ACTIVITIES		
- issue/repurchase of treasury shares		
- issue/purchase of equity instruments		
- dividend and other distributions	- 1,519,500	- 7,597,500
Net cash flows used in financing activities	**- 1,519,500**	**- 7,597,500**
NET CASH FLOWS FOR THE YEAR	**- 478,155**	**- 442,143**

Key: (+) generated; (-) used

Reconciliation:

FINANCIAL STATEMENTS CAPTIONS	Amount	
	2011	2010
Opening cash and cash equivalents	12,165,571	12,607,714
Total net cash cash flows used in the year	- 478,155	- 442,143
Cash and cash equivalents: exchange rate effects	-	-
Closing cash and cash equivalents	11,687,416	12,165,571

NOTES TO THE FINANCIAL STATEMENTS

PART A
Accounting policies

A.1 – GENERAL PART

Section 1 – Statement of compliance

The financial statements of Cassa di Risparmio di Fermo S.p.A. as at and for the year ended 31 December 2011 have been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC), endorsed by the European Commission with EC regulation 1606 of 19 July 2002 and applied in Italy with article 1 of Legislative decree no. 38 of 28 February 2005. The instructions issued by Banca d'Italia in its Circular no. 262 of 22 December 2005 and the first update of 18 November 2009 have also been considered.

The bank also referred to the Framework for application of the IFRS.

When a standard or an interpretation did not exist for a specific transaction, event or circumstance, the board of directors based itself on its judgement to develop and apply an accounting policy in order to provide information that is:

- useful as a basis for the readers to take financial decisions;
- reliable, so that the financial statements:
    - give a faithful view of the bank's financial position, results of operations and cash flows;
    - reflect the economic substance of transactions, other events and circumstances and not merely their legal form;
    - are neutral, i.e., are not prejudiced;
    - are prudent;
    - are complete with reference to all significant aspects.

When exercising its judgement, the board of directors made reference to, and considered the applicability of the following sources, set out below in decreasing order of importance:

- the guidance and instructions set out in the standards and interpretations for similar or related cases;
- the definitions, measurement criteria and concepts used to recognise assets, liabilities, revenue and costs provided in the Framework.

The board of directors may also refer to the most recently issued measures of other bodies that issue accounting standards and use a framework similar to that of the IFRS to develop such standards, other accounting reference documentation and consolidated practices.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, when, in exceptional cases, application of a provision established by the IFRS is incompatible with the true and fair view of an entity's financial position, results of operations and cash flows, it is not applied. In such case, the reasons for departure from the standard are explained in the notes together with its impact on the presentation of the entity's financial position, results of operations and cash flows.

Any gains arising from application of the above-mentioned departure are recognised in a non-distributable reserve to the extent of the amount that can be recovered.

Section 2 - Basis of presentation

The financial statements are clearly stated and give a true and fair view of the bank's financial position at 31 December 2011 and its results of operations and cash flows for the year then ended. They comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

They are accompanied by a directors' report which comments on the bank's performance and financial position.

When the disclosures required by the IFRS and the instructions set out in the Banca d'Italia Circular no. 262 of 22 December 2005, and subsequent amendments, are not sufficient to give a true and fair, material, reliable, comparable and understandable view of the bank's financial position, results of operations and cash flows, additional information is provided in the notes.

The general guidelines for presentation of the financial statements are:

- the assumption of going concern;
- the accruals basis of accounting: costs and revenue are recognised on an accruals basis;
- consistency of presentation: in order to ensure the comparability of data and information in the financial statements, they are presented and classified consistently over the years unless another presentation or classification would be more appropriate;
- materiality and aggregation: each material class of similar items is presented separately in the statement of financial position and the income statement. Items of a dissimilar nature or function are presented separately unless they are immaterial;
- when an asset or liability item relates to more than one caption, disclosure is provided in the notes when this is necessary to understand the financial statements;
- offsetting: assets and liabilities, income and expenses are not offset, unless expressly required or permitted by a standard or an interpretation or the above-mentioned Banca d'Italia Circular no. 262 of 22 December 2005 and subsequent amendments;
- substance over form: the financial statements are presented in accordance with the principle of substance over form;
- comparative information: comparative information in respect of the previous year is disclosed for all amounts reported in the current year's financial statements.

Pursuant to article 5 of Legislative decree no. 38 of 28 February 2005, the financial statements have been prepared using the Euro as the reporting currency. Specifically, the financial statements are prepared in Euros and the notes in thousands of Euros. When necessary in the notes, more detail is given (Euros or cents).

Section 3 - Events after the reporting date

The Fermo tax office commenced a general tax inspection of 2009 on 10 January 2012. It completed its work on 23 March 2012 issuing a preliminary assessment report containing certain issues, mainly of a formal nature. Based on the resolution taken by the board of directors on 27 March 2012, the bank will file an application for paying, given also that the amount involved is immaterial.

On 12 March 2012, the bank officially opened its first "open bank" facility at the Sant'Elpidio a Mare branch, in line with the board of directors' objectives.

This new facility, the first of a series, is surely the most radical innovation of the bank agencies ever adopted by Cassa di Risparmio S.p.A. and places the bank at the forefront of the market compared to the existing organisational models.

On 19 March 2012, the third branch in Rome was opened and, on 26 March, the Piane di Montegiorgio moved to new premises which are in a better location compared to the previous offices in the same square.

Both branches are "open banks".

The repercussions of the financial crisis continue to be felt in early 2012, as disclosed elsewhere in this report, and this may affect the performance of the bank's irregular loans. The bank's policy is to implement a more centralised control procedure and stricter risk position monitoring. It also makes suitable provision therefor.

The non-performing ratio of mortgage loans is in line with that of the last few months while the unsecured loans' ratio has worsened slightly.

As described in the directors' report, the bank's security portfolio is mostly composed of Italian public debt securities. The spread compared to the German bund dropped sharply in January 2012 from 519 bp at the end of December of 416 bp at the end of January. This positive trend has continued through February and March to roughly 300 bp.

As a result, government security prices have increased considerably across all the instruments traded.

The bank recognised an unrealised gain of €6,312 thousand on portfolio securities at the end of January for the trading component which halved the loss recognised in profit or loss for 2011. This trend continued leading to significant increases in the mark to market of the securities portfolio.

There are no other significant events requiring mention in this section of the financial statements that affect the bank's current and future operations.

Section 4 - Other aspects

None.

A2 – ACCOUNTING POLICIES

1 - FINANCIAL ASSETS HELD FOR TRADING

a) Recognition
Debt and equity instruments are initially recognised at their settlement date while derivative contracts are recognised at the date they are signed.

Financial assets held for trading are initially recognised at fair value, which usually equals the consideration paid, without considering transaction costs or revenue, which are recognised in profit or loss.

Embedded derivatives in structured financial instruments whose characteristics are not strictly correlated with those of the host instrument and that meet the definition of a derivative are separated from the host contract and recognised at fair value in profit or loss.

The host contract is recognised using the relevant standard.

b) Classification
Financial assets held for trading include debt and equity instruments acquired to make profits, including through their trading.

The fair value gain of hedging derivatives are included in this caption, including those embedded in financial instruments that meet the conditions for separation of the underlying derivatives.

c) Measurement
Financial assets are measured at fair value following initial recognition. Changes in fair value are taken to profit or loss.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of financial instruments traded on inactive markets is determined using commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models, prices registered in recent similar transactions, considering the different risk profiles of the instruments.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

d) Derecognition
Financial assets held for trading are derecognised when the contractual rights to the cash flows deriving therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Criteria for recognising costs and revenue
Interest and dividends are recognised under “Interest and similar income” and “Dividends and similar income”, respectively. Trading income or expense and gains or losses on the sale of financial assets are recognised under “Net trading income (expense), except for those related to derivatives recognised at fair value through profit or loss, which are classified under “Net gains (losses) on financial assets and liabilities at fair value through profit or loss”.

2 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

a) Recognition
Available-for-sale (AFS) financial assets are initially recognised at the settlement date (debt and equity instruments) or at the disbursement date (loans and financing). They are

initially recognised at fair value, which usually equals cost, including any transaction costs or revenue.

b) Classification
This category includes non-derivative financial assets that are not classified as held for trading, held-to-maturity investments or are not loans and receivables.

The caption includes equity investments not held for trading and that do not qualify as investments in subsidiaries, associates or interests in joint ventures.

c) Measurement
AFS financial assets are subsequently measured at fair value with any fair value gains or losses being recognised in a specific equity reserve.

The fair value of financial instruments listed on active markets equals the reporting date market closing prices.

The fair value of debt instruments not traded on an active market is determined based on the price of instruments with similar characteristics or the present value of future cash flows, considering the different risk profiles inherent in the instruments, or based on the actual prices for trades of the same asset.

The zero coupon rates derived from the closing swap rates are used to discount the above cash flows.

A market is defined as inactive when there are significant differences in the bid/ask prices of the instrument in question.

The fair value of equity instruments classified as AFS is determined considering the actual prices for trades of the same asset. When fair value cannot be determined reliably, the carrying amount equals cost, redetermined if necessary when the asset is sold.

AFS financial assets are tested for impairment whenever there are objective indications of an impairment loss due to a worsening in the issuer's solvency or the other indicators provided for in IAS 39. The impairment loss is determined:

- as the difference between carrying amount and fair value for equity instruments;
- as the difference between the carrying amount and the recoverable amount, i.e., the present value of estimated future cash flows, discounted using the effective interest method, for debt instruments.

Impairment losses are recognised in profit or loss after decreasing the equity reserve for each financial instrument.

When the reasons for impairment are eliminated, the reversal of the impairment loss is taken to:

- equity for equity instruments;
- profit or loss for debt instruments.

d) Derecognition
AFS financial assets are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Criteria for recognising costs and revenue
Interest and dividends are recognised under "Interest and similar income" and "Dividends and similar income", respectively. Gains or losses on the sale of financial assets are recognised under "Gain (loss) on sale or repurchase of available-for-sale financial assets". Gains and losses on the fair value measurement of AFS financial assets are recognised in the "Valuation reserve" under equity and reclassified to profit or loss when sold.

Impairment losses are recognised as "Net impairment losses on available-for-sale financial assets". Any reversals of impairment losses on debt instruments are recognised as "Net reversals of impairment losses on available-for-sale financial assets" while those on equity instruments are reclassified from the valuation reserve to profit or loss when they are sold.

3 - HELD-TO-MATURITY INVESTMENTS

a) Recognition
Held-to-maturity investments are initially recognised at the settlement date.

They are initially recognised at fair value, which usually equals the consideration paid, including any transaction costs or revenue.

The fair value of AFS financial assets reclassified to held-to-maturity investments is their amortised cost.

b) Classification
This category includes non-derivatives with fixed or determinable payments and fixed maturities that the bank has the ability and intention to hold to maturity.

If it is no longer appropriate to maintain an asset as classified as held to maturity following a change in the bank's intentions or ability, it is reclassified to "AFS financial assets".

Should the sale or reclassification of a held-to-maturity investment not be immaterial in quantitative or qualitative terms, the investment is reclassified as available for sale.

c) Measurement
After initial recognition, held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

They are tested for impairment to determine whether there is objective evidence of impairment due to a worsening in the issuer's solvency or the other indicators provided for by IAS 39.

The amount of the loss is measured as the difference between the asset's carrying amount and its recoverable amount, being the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

The impairment loss is recognised in profit or loss.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

d) Derecognition
Held-to-maturity investments are derecognised when the contractual rights to cash flows therefrom expire or the financial asset is sold, transferring substantially all the related risks and rewards.

e) Criteria for recognising costs and revenue
Interest is recognised in "Interest and similar income". Gains and losses on the asset's sale are recognised in "Gain (loss) on the sale or repurchase of held-to-maturity investments". Impairment losses and any reversals are recognised under "Net impairment losses on held-to-maturity investments".

4- LOANS TO CUSTOMERS AND DUE FROM BANKS

a) Recognition
Loans and receivables are initially recognised at the disbursement date or, in the case of a debt instrument, at the settlement date, based on the financial instrument's fair value, which usually equals the amount disbursed, or the subscription price, including transaction costs or revenue attributable to the individual loan or receivable and determinable from the transaction start date, even when they are disbursed subsequently.

The initially recognised amount does not include costs that, despite having the above characteristics, are to be reimbursed by the counterparty or that are administrative costs. Reverse repurchase agreements and repurchase agreements are recognised as lending or funding transactions.

Specifically, repurchase agreements are recognised as a payable for the amount received while resale agreements are recognised as a receivable for the amount paid.

b) Classification
Loans and receivables include non-derivative amounts due from banks and loans to customers, both disbursed directly and acquired from third parties, with fixed or determinable payments that are not listed on an active market and are not initially recognised as "Financial assets at fair value through profit or loss".

The category includes trade receivables, repurchase agreements, finance lease receivables and securities acquired as part of underwriting or private placement transactions with fixed or determinable payments that are not listed on an active market.

c) Measurement

After initial recognition, loans and receivables are measured at amortised cost, that is, they are measured at initial recognition minus/plus principal repayments, impairment losses/reversals of impairment losses and cumulative amortisation, using the effective interest method. The effective interest rate is the date that exactly discounts estimated future payments over the expected life of the loan or receivable to the carrying amount at the time of initial recognition, including directly attributable transaction costs and amounts paid or received between the contracting parties.

The amortised cost method is not used for short-term loans (with maturities of less than 18 months) as discounting these loans has no material impact. They are measured at historical cost.

Loans without a specified maturity and revocable loans are treated similarly.

Loans and receivables are tested for impairment at each reporting date to determine whether there is objective evidence of impairment due to events subsequent to initial recognition or a worsening in the debtors' solvency.

Impaired loans include non-performing loans, substandard loans or loans past due by more than 180 days. They are tested for impairment individually and the impairment loss is equal to the difference between their carrying amount at the (annual or interim) measurement date (amortised cost) and the present value of the recoverable cash flows, calculated using the original effective interest rate. Estimated future cash flows are determined considering the estimated recovery time and the estimated realisable amount of any guarantees. The original effective interest rate of each loan is unchanged over time. The recoverable time is reasonably estimated considering general or specific factors. General factors include the estimated recoverable time considering the nature of the transaction while specific factors include the estimate of the estimated future cash flows considering negotiations for an out-of-court settlement or ongoing repayment plans. The bank monitors the difference between the originally planned recovery time and the effective cash flows to best estimate the expected recovery times.

Performing loans, which include those to residents in countries at risk, are tested for impairment collectively using loss percentages estimated considering historical information, adjusted appropriately to neutralise the effect of non-recurring events, based on elements identifiable at the measurement date, which allow an estimation of the inherent impairment loss. Specifically, the bank estimates the default probability for these loans using default rates, provided regularly by Banca d'Italia in public data bases, and consistently with the measured loans, adjusted by internal estimates based on available historical data. Expected losses are determined by estimating the related exposure to default and default losses calculated using historical recovery rates for non-performing loans. Impairment losses on similar categories of loans, determined for financial reporting purposes, are calculated considering the expected loss on each loan based on its residual life.

Impairment losses are recognised in profit or loss. The loss attributable to discounting cash flows is released on an accruals basis using the effective interest method and recognised as a reversal.

Collectively-determined impairment losses are recognised in profit or loss.

Any additional impairment losses or reversals of impairment losses are recalculated at each reporting date using a different approach considering the entire performing loan portfolio at that date.

When the reasons for impairment are no longer valid, the impairment loss is reversed.

d) Derecognition

Loans and receivables are derecognised when substantially all the risks and rewards of ownership of the asset are transferred.

Conversely, if the risks and rewards associated with the asset are retained, the loan or receivable continues to be recognised to the extent of the bank's continuing involvement in the asset, even though legal title has been transferred.

When it is not possible to verify the substantial transfer of the risks and rewards, the assets are derecognised when no control thereover is retained. If even a portion of control is retained, the asset continues to be recognised in line with the bank's continuing involvement, measured by exposure to changes in the value of the assets transferred and to changes in the related cash flows.

Finally, loans and receivables are derecognised when the bank retains the contractual rights to receive the related cash flows with the concurrent obligation to pay them to a third party.

e) Criteria for recognising costs and revenue

Interest is recognised under "Interest and similar income". Impairment losses and reversals of impairment losses are recognised under "Net impairment losses on loans and receivables".

Gains or losses on sales are shown under "Gains from sales or repurchases of loans and receivables".

5 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Recognition
b) Classification
c) Measurement
d) Derecognition
e) Criteria for recognising costs and revenue

At the reporting date, the bank did not have financial assets at fair value through profit or loss either to hedge derivatives or to exercise the fair value option.

6 - HEDGING

The bank has not entered into hedging agreements except for that stated for assets and liabilities at fair value through profit or loss with respect to resort to the fair value option.

7 – EQUITY INVESTMENTS

At the reporting date, the bank did not have investments in subsidiaries or associates.

8 - PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) Recognition

They are recognised at cost, including directly related charges.

Subsequent maintenance expenditure is capitalised if it leads to an increase in the future economic benefits generated by the asset.

Borrowing costs are recognised in accordance with IAS 23 and are, therefore, recognised as a cost in the year in which they are incurred.

b) Classification

Property, equipment and investment property include land, owned buildings and investment property, furniture, fittings, technical systems and other assets held for use in production or to supply goods and services, for lease to third parties or for administrative purposes which will be used over more than one period.

This caption also includes leasehold improvements and related costs when the asset is identifiable and separable. Buildings and appurtenance land are recognised separately when purchased.

c) Measurement

Assets held for operating purposes are measured at cost net of accumulated depreciation and any impairment losses.

Land and assets under construction are not depreciated.

Property and equipment held for operating purposes are depreciated systematically over their useful lives on a straight-line basis, except for land which has an indefinite useful life and is not depreciable. Should the carrying amount of land be included in that of the related building, they are separated using an appraisal performed by sector experts.

These assets are tested for impairment when there is objective indication thereof.

Investment property is measured at fair value, which is determined periodically using specific appraisal estimates prepared by sector experts.

d) Derecognition
An asset is derecognised when divested or when it is no longer used and its disposal is not expected to generate future risks or benefits.

e) Criteria for recognising costs and revenue
Accumulated depreciation and any impairment losses on operating assets are recognised under "Depreciation and net impairment losses on property, equipment and investment property". Impairment losses and reversals of impairment losses of investment property, determined considering its fair value, are recognised under "Profit (loss) on the fair value measurement of property, equipment and investment property".

9 - INTANGIBLE ASSETS

a) Classification
Intangible assets include long-term software licences.

b) Recognition and measurement
Intangible assets are recognised at cost, including directly related charges only when it is probable that the future economic benefits of the asset will materialise and its cost can be determined reliably.

The cost of assets with finite lives is amortised on a straight-line basis over their useful lives.

d) Derecognition
Intangible assets are derecognised upon their disposal or when no future benefits are expected therefrom.

d) Criteria for recognising costs and revenue
Accumulated amortisation is recognised under "Amortisation and net impairment losses on intangible assets". Impairment losses on goodwill and intangible assets with indefinite useful lives are taken to "Impairment losses on goodwill" and "Amortisation and net impairment losses on intangible assets", respectively.

10 - NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE
The bank does not have non-current assets classified as held for sale.

11 - CURRENT AND DEFERRED TAXES
a) Classification
Current tax assets and liabilities consists of receivables for tax advances paid and income taxes on the tax base for the year, respectively.

Deferred tax assets and liabilities originate on the temporary differences between the carrying amounts of assets and liabilities and their tax bases.

b) Recognition and measurement
Current and deferred taxes, calculated in accordance with the Italian tax legislation, are recognised on an accruals basis, in line with the costs and revenue generating them and using enacted tax rates. Income taxes are recognised in profit or loss except for those related to captions recognised directly in equity.

Income taxes are provided for based on a prudent estimate of the current and deferred taxes.

Current taxes are the net of current tax liabilities and current tax assets, being the advances paid and other tax credits for withholdings.

Deferred taxes are determined considering the temporary differences (without time limits) between the carrying amount of assets and liabilities and their tax bases.

Deferred tax assets are recognised to the extent that their recovery is probable, determined considering the entity's ability to generate taxable income on an ongoing basis. Deferred tax liabilities are recognised since the amount of the available taxed reserves is such that it can reasonably be held that transactions which require their taxation will not take place.

Deferred tax assets and liabilities are recognised in the statement of financial position without offsetting.

d) Criteria for recognising costs and revenue
Current and deferred taxes are recognised under "Income tax expense".

They are recognised in equity if they relate to transactions recognised directly in equity.

12- PROVISIONS FOR RISKS AND CHARGES

a) Recognition and derecognition

b) Classification

c) Measurement

Pension and similar provisions

They include the supplementary pension fund organised by INPS (the Italian social security institution).

The fund, defined as a defined benefit fund, includes accruals to guarantee pensioners with the related vested rights a supplementary pension, determined on an objective and realistic forward-looking basis, equal to the "mathematical reserve" calculated by an external actuary.

Other provisions

Other provisions for risks and charges include provisions made when the following concurrent conditions are met:
a) the bank has a present legal or constructive obligation as a result of a past event;
b) it is probable that an outflow of resources will be necessary to settle the obligation;
c) the obligation can be determined reliably.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation or transfer it to third parties at the closing date.

The types of events that could require provisions are:
a) ongoing legal disputes;
b) risks for ongoing claw-back claims;
c) certain or probable obligations arising from contractual commitments or an executive ruling which is not yet final.

When the effect of the time value of money is material, the provisions are discounted using the current market rates at the closing date.

d) Criteria for recognising costs and revenue
Accruals to these provisions are recognised in "Net accruals to provisions for risks and charges" while those for post-employment benefits are recognised under "Personnel expense".

13- LIABILITIES AND ISSUED SECURITIES
a) Recognition
These financial liabilities are recognised when the amounts are received or the debt instruments are issued.

They are initially recognised at fair value, which is normally equal to the consideration received or the issue price, plus or minus any additional costs or revenue directly attributable to the individual transaction and not reimbursed to the creditor. The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is recognised directly in profit or loss, when the conditions of IAS 39 are met.

Structured financial liabilities, consisting of a security and one or more embedded derivatives, are classified under liabilities measured at fair value using the fair value option. Therefore, their fair value includes that of the embedded derivatives and the host contract.

b) Classification
Due to banks, due to customers and securities issued include the characteristic types of interbank and customer funding as well as lending through certificates of deposit and bonds issued net of any repurchases.

c) Measurement
After initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

Conversely, current financial liabilities continue to be measured at the consideration received as the effect of the amortised cost measurement would be negligible.

d) Derecognition
Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

If the repurchased security is subsequently placed on the market again, this is treated as a new issue and is recognised at the new placement price, with no effect on profit or loss.

e) Criteria for recognising costs and revenue
Interest is recognised under "Interest and similar expense". Gains and losses on the repurchase of the liabilities are shown under "Gain (loss) from sales or repurchases of financial liabilities".

14 - FINANCIAL LIABILITIES HELD FOR TRADING

a) Recognition
Financial liabilities held for trading are initially recognised at the settlement date while derivatives are recognised at their agreement date.

They are initially recognised at fair value, which usually equals the consideration received, without considering directly related transaction costs and revenue.

b) Classification
The category includes financial liabilities held for trading and embedded derivatives with a negative fair value.

c) Measurement
Financial liabilities held for trading are subsequently measured at fair value through profit or loss.

Market prices are used to determine the fair value of financial instruments listed on active markets. If an active market does not exist, commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

d) Derecognition
Financial liabilities held for trading are derecognised when they expire, are extinguished or all the related risks and rewards are transferred to third parties.

e) Criteria for recognising costs and revenue
Fair value gains and losses are recognised in "Net trading income (expense)", except for those related to derivatives measured with the fair value option which are classified in "Net gains (losses) on financial assets and liabilities at fair value through profit or loss".

15 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

a) Recognition
Debt instruments are initially recognised at their issue date. Financial liabilities at fair value through profit or loss are initially recognised at their fair value which is usually the consideration received, without considering directly related transaction costs or revenue, which are recognised in profit or loss.

The fair value option (FVO) is applied to all financial liabilities with natural hedges and that are, therefore, managed and measured at fair value. Specifically, fixed rate funding instruments are recognised as financial liabilities at fair value through profit or loss when their interest rate is hedged using symmetric derivatives.

The fair value of financial liabilities issued at other than market conditions is estimated and the difference compared to the consideration received is taken directly to profit or loss when the conditions of IAS 39 are met.

b) Classification
This category includes financial liabilities measured at fair value through profit or loss when:

1. fair value designation allows elimination or significant reduction of measurement or recognition inconsistencies that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different basis; or
2. a group of financial instruments at fair value through profit or loss is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or
3. the liability has an embedded derivative that significantly alters the cash flows of the host instrument and shall be separated.

Specifically, this category includes financial liabilities subject to natural hedges using derivatives.

The relationship between liabilities measured using the fair value option and the related derivatives, which integrate the natural hedge, is disclosed in the relevant section of these notes.

c) Measurement
Financial liabilities are subsequently measured at fair value.

Market prices are used to determine fair value of financial instruments quoted on an active market.

If an active market does not exist, commonly adopted estimation/valuation models that take into account market data such as methods based on the measurement of listed instruments with similar characteristics, calculation of discounted cash flows, option pricing models and prices registered in recent similar transactions are used.

d) Derecognition
Financial liabilities are derecognised when they expire or are extinguished. They are also derecognised when previously issued securities are repurchased. The difference between their carrying amount and the amount paid to repurchase them is recognised in profit or loss.

e) Criteria for recognising costs and revenue
Fair value gains and losses are recognised in “Net trading income (expense)”, except for those related to derivatives measured with the fair value option which are classified in “Net gains (losses) on financial assets and liabilities at fair value through profit or loss”.

16 - FOREIGN CURRENCY TRANSACTIONS
a) Recognition and derecognition
Foreign currency transactions are initially recognised in Euros by applying the exchange rate prevailing at the transaction date.

b) Classification and measurement
Foreign currency assets and liabilities are translated into Euros at each subsequent reporting date using the following criteria:

- ✓ monetary items are translated using the closing rates;
- ✓ non-monetary items measured at historical cost are translated using the transaction-date exchange rates;
- ✓ non-monetary items measured at fair value are translated using the closing rates.

d) Criteria for recognising costs and revenue

Exchange rate differences arising from the settlement of monetary items or from the translation at exchange rates other than the initial translation rate or the prior closing rate are recognised in profit or loss in the period in which they arise.

When the gain or loss on a non-monetary item is recognised in equity, the exchange rate gain or loss is also taken to equity. However, when the gain or loss is recognised in profit or loss, the related exchange rate gain or loss is recognised there too.

All exchange rate gains and losses are recognised under "Net trading income (expense)".

17 - OTHER INFORMATION

17.1 - Post-employment benefits

a) Recognition

b) Classification

c) Measurement

d) Derecognition

Post-employment benefits are recognised at their actuarial value.

This value is determined using the procedure for defined benefit plans and the projected unit credit method, whereby future payments are projected using historical series analyses and demographical trends and discounted using a market rate.

The provision is recognised under "Personnel expense" and includes the Italian Civil Code revaluation and interest expense on the increase in present value due to the time value of money and the effect of changes in the actuarial gains or losses, which are determined using the corridor method. This method calculates the difference between the cumulated actuarial gains or losses at the previous year closing date and 10% of the present value of the plan benefits. Any excess is recognised considering the expected average working life of the plan beneficiaries or by using any systematic method that allows a faster calculation of the actuarial gains or losses.

e) Criteria for recognising costs and revenue

Provisions for post-employment benefits are recognised in "Personnel expense" in the income statement.

17.2 - Treasury shares

The bank did not have any treasury shares in its portfolio at the closing date.

17.3 - Dividends and revenue recognition

Revenue is recognised when received and when it is probable that future economic benefits will flow to the bank and these benefits can be measured reliably.

Dividends are recognised in profit or loss when their distribution is approved.

Income from the trading or issue of financial instruments, being the difference between the transaction price and the instrument's fair value, is recognised in profit or loss when the transaction is recognised if the fair value can be determined using parameters or recent transactions on the same market as that on which the instrument is traded; if not, they are deferred and recognised over the instrument's term considering its nature.

Income from financial instruments that cannot be measured using the above methods is taken to profit and loss over the transaction's term.

A3 – FAIR VALUE

1 - FINANCIAL ASSETS HELD FOR TRADING

A.3.1 Portfolio transfers

A.3.1.1 Reclassified financial assets: carrying amount, fair value and effect on comprehensive income

Type of financial instrument	Original portfolio	Portfolio to which transfer is made	Reporting date carrying amount	Reporting date fair value	Income or expense if transfer had not taken place (before taxes)		Income or expense for the year (before taxes)	
					Fair value	Other	Fair value	Other
Debt	HFS	AFS	83,636	83,636	- 7,215	1,842	- 7,215	1,842
				Total A	**- 7,215**	**1,842**	**- 7,215**	**1,842**

No financial assets were reclassified out of one portfolio and into another in 2011.

The table shows the fair value of the securities held by the bank at the reporting date and reclassified from the HFT portfolio into the AFS portfolio in 2008, following the amendment to IAS 39 and IFRS 7, endorsed by the relevant authorities. The amounts shown in the “Fair value gains (losses) of the year (pre-tax)” column and recognised in equity reflect the increase in the losses recognised at 31 December 2010. The “Other” column shows interest on coupons and trading profits (losses) on securities sold during the year.

A.3.2 Fair value hierarchy

A.3.2.1 Accounting portfolios: breakdown by fair value level

Financial assets/liabilities at fair value	31/12/2011			31/12/2010		
	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	186,190	1,979	-	203,897	1,568	-
2. Financial assets at fair value through profit or loss						
3. Available-for-sale financial assets	*102,567*	*9,891*	*3,559*	*110,375*	*3,977*	*3,559*
4. Hedging derivatives	-		-	-		-
Total	**288,757**	**11,870**	**3,559**	**314,272**	**5,545**	**3,559**
1. Financial liabilities held for trading	-	1,424	-	-	1,512	-
2. Financial liabilities at fair value through profit or loss	-			-	1,685	
3. Hedging derivatives	-		-	-		-
Total	**-**	**1,424**	**-**	**-**	**3,197**	**-**

Key:

L1 = Level 1
L2 = Level 2
L3 = Level 3

Financial assets classified as trading in the L2 column of the A.3.2.1 table refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes.

Financial assets classified as AFS in the L1 column of the A.3.2.1 table refer to:

debt instruments traded on organised markets;

the bank's listed equity instruments,

Financial assets classified as AFS in the L2 column of the A.3.2.1 table refer to debt instruments traded on inactive markets and measured using the criteria set out in Part A, section 2 of these notes:

Financial assets classified as AFS in table A.3.2.1 of the L3 column refer to unlisted equity investments acquired by the bank over the last few years with carrying amounts equal to the average prices struck for the last few acquisitions. If this information is not available, they are measured at cost.

A.3.2.2 Changes in financial assets at level 3-fair value

	FINANCIAL ASSETS			
	Held for trading	FVTPL	Available-for-sale	Hedging
1. Opening balance			**3,559**	
2. Increases	**-**	**-**	**92**	**-**
2.1. Purchases	-	-	92	-
2.2. Gains recognised in:	-	-	-	-
2.2.1. profit or loss	-	-		-
- including gains on sales	-	-		-
2.2.2. Equity	-	-		-
2.3. Transfers from other levels	-	-	-	-
2.4. Other increases	-	-	-	-
3. Decreases	**-**	**-**	**92**	**-**
3.1. Sales	-	-	14	-
3.2. Repayments	-	-	-	-
3.3. Losses recognised in:	-	-	78	-
3.3.1. profit or loss	-	-	*78*	-
- including losses on sales	-	-		-
3.3.2. Equity	-	-	-	-
3.4. Transfers to other levels	-	-	-	-
3.5 Other decreases	-	-	-	-
4. Closing balance	**-**	**-**	**3,559**	**-**

The changes relate to:

1) The € 92 thousand increase following the share capital increase of Se.Ba S.p.A..
2) The € 14 thousand decrease due to derecognition of the carrying amount of the investment in Se.Ba S.p.A. following its sale;
3) The € 78 thousand decrease due to the loss on the sale of the investment in Se.Ba S.p.A..

PART B
Notes to the statement of financial position

ASSETS

Section 1 – Cash and cash equivalents – Caption 10

1.1 Cash and cash equivalents: breakdown

	31/12/2011	31/12/2010
a) Cash	11,687	12,166
b) Demand deposits with central banks		-
Total	**11,687**	**12,166**

Section 2 – Financial assets held for trading – Caption 20

2.1 Financial assets held for trading: breakdown by product

	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
A. Assets						
1. Debt instruments	186,189	559	-	203,895	2	-
1.1 Structured instruments		-	-	-	-	-
1.2 Other instruments	*186,189*	*559*		*203,895*	*2*	
2. Equity instruments	1			2		
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
4.1 Repurchase agreements	-	-	-	-	-	-
4.2 Other	-	-	-	-	-	-
Total A	**186,190**	**559**	**-**	**203,897**	**2**	**-**
B. Derivatives						
1. Financial derivatives:	-	1,420	-	-	1,566	-
1.1 trading	-	*1,420*	-	-	*1,267*	-
1.2 associated with fair value option	-	-	-	-	*61*	-
1.3 other	-	-	-	-	*238*	-
2. Credit derivatives	-	-	-	-	-	-
2.1 trading	-	-	-	-	-	-
2.2 associated with fair value option	-	-	-	-	-	-
2.3 other	-	-	-	-	-	-
Total B	**-**	**1,420**	**-**	**-**	**1,566**	**-**
Total	**186,190**	**1,979**	**-**	**203,897**	**1,568**	**-**

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

	31/12/2011	31/12/2010
A. Assets		
1. Debt instruments	**186,747**	**203,897**
a) Government and central banks	175,474	191,170
b) Other government agencies	557	782
c) Banks	10,716	10,985
d) Other issuers	-	960
2. Equity instruments	**1**	**2**
a) Banks	-	-
b) Other issuers:	1	2
- insurance companies	-	-
- financial companies	1	2
- non-financial companies	-	-
- other	-	-
3. OEIC units	**-**	**-**
4. Financing	**-**	**-**
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total A	**186,748**	**203,899**
B. Derivatives		
a) Banks	1,217	1,277
- Fair value	*1,217*	*1,277*
-		
b) Customers	203	289
- Fair value	*203*	*289*
-		
Total B	**1,420**	**1,566**
Total	**188,168**	**205,465**

2.3 Financial assets held for trading: changes

	Debt instruments	Equity instruments	OEIC units	Financing	Total
A. Opening balance	**203,897**	**2**	**-**	**-**	**203,899**
B. Increases	**407,533**	**-**	**-**	**-**	**407,533**
B1. Purchases	405,485				**405,485**
B2. Fair value gains	30				**30**
B3. Other increases	2,018				**2,018**
C. Decreases	**424,683**	**1**	**-**	**-**	**424,684**
C1. Sales	410,177		-	-	**410,177**
C2. Redemptions	367		-	-	**367**
C3. Fair value losses	13,635	1	-	-	**13,636**
C4. Transfers to other portfolios	-				
C4. Other decreases	504		-	-	**504**
D. Closing balance	**186,747**	**1**	**-**	**-**	**186,748**

During 2011, the bank sold the following senior bonds issued by Lehman Brothers Holding Inc. held in its trading portfolio:

ISIN	Issuer	Description	Maturity	Carrying amount	Nominal amount
XS0252835110	Lehman Bros.Hold.Inc.	L.B. 04/05/2006 – 04/05/2011 FRN	05/05/2011	240,000	1,000,000
XS0282937985	Lehman Bros.Hold.Inc.	L.B. 22/01/2007 - 05/02/2014 FRN	05/02/2014	720,000	3,000,000

This sale generated a gain of € 10 thousand compared to the bonds' carrying amount at 31 December 2010.

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

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

	31/12/2011			31/12/2010		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
1. Debt instruments	102,515	9,891	-	110,312	3,976	-
1.1 Structured instruments		-	-	-	-	-
1.2 Other instruments	*102,515*	*9,891*	-	*110,312*	*3,976*	-
2. Equity instruments	52	-	3,559	64	-	3,559
2.1 FVTPL	*52*	-		*64*	-	
2.2 Cost	-	-	*3,559*	-	-	*3,559*
3. OEIC units	-	-	-	-	-	-
4. Financing	-	-	-	-	-	-
Total	**102,567**	**9,891**	**3,559**	**110,376**	**3,976**	**3,559**

AFS financial assets shown:

1. in the L1 column refer to:
    a. debt instruments traded on regulated active markets;
    b. listed equity instruments.
2. in the L2 column refer to debt instruments traded on inactive markets for which fair value was determined using internal valuation models based on market parameters;
3. in the L3 column refer to equity instruments measured based on recent transactions, if available, or at cost. Specifically, this column shows the bank's equity investments. Its investment in Intesa Sanpaolo is shown in column L1. A list of the bank's equity investments is given in the annexes.

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

	31/12/2011	31/12/2010
1. Debt instruments	**112,406**	**114,288**
a) Government and central banks	18,879	-
b) Other government agencies	-	-
c) Banks	91,687	111,130
d) Other issuers	1,840	3,158
2. Equity instruments	**3,611**	**3,623**
a) Banks	1,134	1,146
b) Other issuers:	2,477	2,477
- insurance companies	-	-
- financial companies	*366*	*366*
- non-financial companies	*2,111*	*2,111*
- other	-	-
3. OEIC units	**-**	**-**
4. Financing	**-**	**-**
a) Government and central banks	-	-
b) Other government agencies	-	-
c) Banks	-	-
d) Other	-	-
Total	**116,017**	**117,911**

4.4 Available-for-sale financial assets: changes

	Debt instruments	Equity instruments	OEIC units	Financing	Total
A. Opening balance	**114,288**	**3,623**	**-**	**-**	**117,911**
B. Increases	**20,234**	**104**	**-**	**-**	**20,338**
B1. Purchases	18,576	104	-	-	**18,680**
B2. Fair value gains			-	-	**-**
B3. Reversals of impairment losses	-	-	-	-	**-**
- recognised in profit or loss	-	-	-	-	**-**
- recognised in equity			-	-	**-**
B4. Transfers from other portfolios		-	-	-	**-**
B5. Other increases	1,658	-	-	-	**1,658**
C. Decreases	**22,116**	**116**	**-**	**-**	**22,232**
C1. Sales	649	14			**663**
C2. Repayments	12,686				**12,686**
C3. Fair value losses	7,837	24			**7,861**
C4. Impairment losses	-	-	-	-	**-**
– recognised in profit or loss		-			**-**
– recognised in equity		-			**-**
C5. Transfers to other portfolios					**-**
C6. Other decreases	944	78			**1,022**
D. Closing balance	**112,406**	**3,611**	**-**	**-**	**116,017**

During the year and given the favourable market conditions, the bank sold bonds issued by Morgan Stanley, reclassified from the HFT portfolio into the AFS portfolio in 2008 following the October 2008 amendment to IAS 39 and IFRS 7, recording a gain of € 24 thousand.

Senior bonds issued by Italian banks were redeemed at their natural maturity during the year for € 12,686 thousand.

Point C3 of the above table shows the fair value losses on the AFS securities carried at fair value taken to the specific fair value reserve (caption 130 of liabilities).

The redemption value of the securities that matured in 2011 equalled their nominal amount. Moreover, as already disclosed in Part A, Section 3, prices increased sharply in January 2012 due to the reduction in the spread on the German Bund, leading to large reversals of impairment losses demonstrating the considerable volatility of the short-term market. This did not lead to impairment losses on the securities.

Section 5 – Held-to-maturity investments – Caption 50

5.1 Held-to-maturity investments: breakdown by product

	31/12/2011				31/12/2010			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
1. Debt instruments	5,038	3,738	-	-	5,030	4,730	-	-
1.1 Structured		-	-	-	-	-	-	-
1.2 Other	*5,038*	*3,738*	-		*5,030*	*4,730*	-	
2. Financing	-	-	-	-	-	-	-	-
Total	**5,038**	**3,738**	**-**	**-**	**5,030**	**4,730**	**-**	**-**

Since its adoption of the IFRS, the bank has classified a floating rate Italian government bond, maturing in 2019 indexed to the 10-year swap rate to benefit from any increase in the rate curve, in the HtM investment portfolio. It had been acquired before adoption of the IFRS and originally classified as an intangible asset as approved by the relevant bodies.

The difference between the carrying amount and fair value is € 1,300 thousand.

5.2 Held-to-maturity investments: breakdown by debtor/issuer

	31/12/2011	31/12/2010
1. Debt instruments	**5,038**	**5,030**
a) Government and central banks	5,038	5,030
b) Other government agencies		
c) Banks		
d) Other issuers		
2. Financing	**-**	**-**
a) Government and central banks		
b) Other government agencies		
c) Banks		
d) Other		
Total	**5,038**	**5,030**

5.4 Held-to-maturity investments other than those transferred and not derecognised or impaired: changes

	Debt instruments	Financing	Total
A. Opening balance	**5,030**		**5,030**
B. Increases	**38**	**-**	**38**
B1. Purchases			**-**
B2. Reversals of impairment losses			**-**
B3. Transfers from other portfolios			**-**
B4. Other increases	38		**38**
C. Decreases	**30**	**-**	**30**
C1. Sales			-
C2. Repayments			-
C3. Impairment losses			-
C4. Transfers to other portfolios			-
C5. Other decreases	**30**		30
D. Closing balance	**5,038**	**-**	**5,038**

The changes refer to interest accrued on the investments.

Section 6 – Due from banks – Caption 60

6.1 Due from banks: breakdown by product

	31/12/2011	31/12/2010
A. Due from central banks	**14,393**	**8,207**
1. Term deposits		-
2. Mandatory reserve	14,393	8,207
3 Repurchase agreements		-
4 Other	-	-
B. Due from banks	**13,099**	**13,383**
1. Current accounts and demand deposits	13,099	13,383
2. Term deposits		
3. Other financing:		
3.1 Repurchase agreements		
3.2 Finance leases		
3.3 Other		
4 Debt instruments	-	-
4.1 Structured instruments		
4.2 Other instruments		
Total (carrying amount)	**27,492**	**21,590**
Total (fair value)	**27,492**	**21,590**

Section 7 – Loans to customers – Caption 70

7.1 Loans to customers: breakdown by product

	31/12/2011		31/12/2010	
	Performing	Impaired	Performing	Deteriorate
1. Current accounts	263,702	15,800	230,367	18,009
2 Repurchase agreements		-	-	-
3. Loans	543,005	37,965	536,022	35,631
4. Credit cards, personal loans and salary backed loans	28,492	2,120	29,488	2,097
5. Finance leases	-	-	-	-
6. Factoring	-	-	-	-
7. Other	160,374	6,283	131,985	5,403
8. Debt instruments	-	-	-	-
8.1 Structured instruments				
8.2 Other instruments				
Total (carrying amount)	**995,573**	**62,168**	**927,862**	**61,140**

The fair value of loans to customers was determined considering the risk-free interest rate curve, increased by a spread calculated on the basis of estimated losses based on historical data.

Point 7 of table 7.1 includes the following (€'000):

- import/export advances of € 32,323 thousand;
- advances and bills under reserve and advances on invoices of € 113,996 thousand;
- portfolio risks of € 793 thousand;
- financing with repayment plans of € 13,262 thousand.

7.2 Loans to customers: breakdown by debtor/issuer

	31/12/2011		31/12/2010	
	Performing	**Impaired**	**Performing**	**Impaired**
1. Debt instruments	**-**	**-**	**-**	**-**
a) Governments	-	-	-	-
b) Other government agencies	-	-	-	-
c) Other issuers	-	-	-	-
- non-financial companies				
- financial companies				
- insurance companies				
- other				
2. Financing to:	**995,573**	**62,168**	**927,863**	**61,140**
a) Governments	3,605	-	572	-
b) Other government agencies	3,340		3,537	
c) Other:	988,628	62,168	923,754	61,140
- non-financial companies	*678,211*	*43,323*	*622,322*	*42,401*
- financial companies	*9,068*	*49*	*2,411*	*71*
- insurance companies	-	-	-	-
- other	*301,349*	*18,796*	*299,021*	*18,668*
Total	**995,573**	**62,168**	**927,863**	**61,140**

Section 11 – Property, equipment and investment property – Caption 110

11.1 Property, equipment and investment property: assets measured at cost

	31/12/2011	31/12/2010
A. Operating assets		
1.1 owned	**18,777**	**19,148**
a) land	4,234	4,234
b) buildings	13,614	13,897
c) furniture	323	354
d) electronic systems	265	343
e) other	341	320
1.2 under finance lease	**-**	**-**
a) land		
b) buildings		
c) furniture		
d) electronic systems		
e) other		
Total A	**18,777**	**19,148**
B. Investment property		
2.1 owned	**-**	**-**
a) land		
b) buildings		
2.2 under finance lease	**-**	**-**
a) land		
b) buildings		
Total B	**-**	**-**
Total (A + B)	**18,777**	**19,148**

11.3 Operating assets: changes

	Land	Buildings	Furniture	Electronic systems	Other	Total
A. Gross opening balance	4,234	32,400	5,004	5,190	5,037	51,865
A.1 Total net impairment losses		18,503	4,650	4,847	4,717	32,717
A.2 Net opening balance	**4,234**	**13,897**	**354**	**343**	**320**	**19,148**
B. Increases:	**-**	**682**	**8**	**114**	**160**	**964**
B.1 Purchases		89	8	114	160	371
B.2 Capitalised improvement costs						-
B.3 Reversals of impairment losses						-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
a) equity						-
b) profit or loss						-
B.5 Exchange rate gains						-
B.6 Transfers from investment property						-
B.7 Other increases		593				593
C. Decreases:	**-**	**965**	**38**	**193**	**139**	**1,335**
C.1 Sales				3		3
C.2 Depreciation		957	38	190	113	1,298
C.3 Impairment losses recognised in:	-	-	-	-	-	-
a) equity						-
b) profit or loss						-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
a) equity						-
b) profit or loss						-
C.5 Exchange rate losses						-
C.6 Transfers to:	-	-	-	-	-	-
a) investment property						-
b) disposal groups						-
C.7 Other decreases		8			26	34
D. Net closing balance	**4,234**	**13,614**	**324**	**264**	**341**	**18,777**
D.1 Total net impairment losses		19,460	4,688	5,037	4,830	34,015
D.2 Gross closing balance	4,234	33,074	5,012	5,301	5,171	52,792
E. Measurement at cost	**4,234**	**13,614**	**324**	**264**	**341**	**18,777**

The decreases in line C2 Depreciation of table 11.3 comply with the tax rates established by the Ministry for the Economy and Finance decree as no material wear and tear was identified during the year.

Property and equipment are held for operating purposes.

A list of the property owned by the bank is attached to these notes.

Section 12 – Intangible assets – Caption 120

12.1 Intangible assets: breakdown by asset

	31/12/2011		31/12/2010	
	Finite life	**Indefinite life**	**Finite life**	**Indefinite life**
A.1 Goodwill		**-**	**-**	**-**
A.2 Other intangible assets	**72**	**-**	**108**	**-**
A.2.1 Assets measured at cost		-	108	-
a) Internally developed assets				
b) Other	*72*		*108*	
A.2.2 Assets measured at fair value:	-	-	-	-
a) Internally developed assets				
b) Other				
Total	**72**	**-**	**108**	**-**

12.2 Intangible assets: changes

	Goodwill	Other intangible assets: internally generated		Other intangible assets: other		Total
		finite life	indefinite life	finite life	indefinite life	
A. Opening balance	**-**	**-**	**-**	**108**	**-**	**108**
A.1 Total net impairment losses						-
A.2 Net opening balance				108		108
B. Increases	**-**	**-**	**-**	**6**	**-**	**6**
B.1 Purchases				6		6
B.2 Increase in internally generated assets						-
B.3 Reversals of impairment losses						-
B.4 Fair value gains recognised in:	-	-	-	-	-	-
- equity						-
- profit or loss						-
B.5 Exchange rate gains						-
B.6 Other increases						-
C. Decreases	**-**	**-**	**-**	**42**	**-**	**42**
C.1 Sales						-
C.2 Impairment losses	-	-	-	42	-	42
- Amortisation				*42*		*42*
- Impairment losses	-	-	-	-	-	-
+ equity						-
+ profit or loss						-
C.4 Fair value losses recognised in:	-	-	-	-	-	-
- equity						-
- profit or loss						-
C.4 Transfers to disposal groups						-
C.5 Exchange rate losses						-
C.6 Other decreases						-
D. Net closing balance	**-**	**-**	**-**	**72**	**-**	**72**
D.1 Total net impairment losses						
E. Gross closing balance	**-**	**-**	**-**	**72**	**-**	**72**
F. Measurement at cost	**-**	**-**	**-**	**72**	**-**	**72**

Section 13 – Tax assets and liabilities – Caption 130 of assets and Caption 80 of liabilities

13.1 Deferred tax assets: breakdown

	31/12/2011
Personnel expense	951
Administrative expenses	491
Fair value losses on AFS financial assets	3,894
Impairment losses on loans	2,163
Total	**7,499**

13.2 Deferred tax liabilities: breakdown

	31/12/2011
Fair value gains on bonds	
Fair value gains on AFS financial assets	138
Deferred gains	
FTA depreciation of land	672
Post-employment benefits	225
Total	**1,035**

Deferred tax assets and liabilities were affected by changes in the valuation reserve of assets recognised as AFS. Specifically, the greater loss recognised at the reporting date led to an increase in deferred tax assets. Moreover, the tax legislative changes applicable to entities that apply the IFRS authorised use of the "derivazione rafforzata" criterion rather than the "neutrality" criterion. This substantially decreased the differences between the carrying amounts and tax bases of assets and liabilities with the resulting decrease in the related deferred tax assets and liabilities. Article 23.5/6 of Law decree no. 98/2011, converted with Legislative decree no. 111/2011, provided for an 0.75% increase in the IRAP rate for banks. Therefore, the bank recalculated the deferred tax assets and liabilities considering this new rate.

13.3 Changes in deferred tax assets (recognised in profit or loss)

	31/12/2011	31/12/2010
1. Opening balance	**3,783**	**3,896**
2. Increases	**178**	**220**
2.1 Deferred tax assets recognised in the year	178	220
a) related to previous years		
b) due to changes in accounting policies		
c) reversals of impairment losses		
d) other	*178*	*220*
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**354**	**333**
3.1 Deferred tax assets derecognised in the year	354	333
a) reversals	*354*	*333*
b) impairment due to non-recoverability		
c) change in accounting policies	-	-
d) other	-	-
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**3,607**	**3,783**

13.4 Changes in deferred tax liabilities (recognised in profit or loss)

	31/12/2011	31/12/2010
1. Opening balance	**882**	**882**
2. Increases	**-**	**-**
2.1 Deferred tax liabilities recognised in the year	-	-
a) related to previous years		
b) due to changes in accounting policies		
c) other	-	-
2.2 New taxes or increases in tax rates		
2.3 Other increases		
3. Decreases	**-**	**-**
3.1 Deferred tax liabilities derecognised in the year	-	-
a) reversals		
b) due to changes in accounting policies	-	-
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**882**	**882**

13.5 Changes in deferred tax assets (recognised in equity)

	31/12/2011	31/12/2010
1. Opening balance	**1,339**	**583**
2. Increases	**2,575**	**784**
2.1 Deferred tax assets recognised in the year	2,546	784
a) related to previous years		
b) due to changes in accounting policies		
c) other	*2,546*	*784*
2.2 New taxes or increases in tax rates	29	
2.3 Other increases		
3. Decrease	**22**	**28**
3.1 Deferred tax assets derecognised in the year	22	28
a) reversals	*22*	*28*
b) impairment due to non-recoverability		
c) due to changes in accounting policies		
c) other		
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**3,892**	**1,339**

13.6 Changes in deferred tax liabilities (recognised in equity)

	31/12/2011	31/12/2010
1. Opening balance	**180**	**260**
2. Increases	**15**	**-**
2.1 Deferred tax liabilities recognised in the year	-	-
a) related to previous years		
b) due to changes in accounting policies		
c) other		
2.2 New taxes or increases in tax rates	15	
2.3 Other increases		
3. Decreases	**44**	**80**
3.1 Deferred tax liabilities derecognised in the year	44	80
a) reversals	*44*	
b) due to changes in accounting policies		
c) other		*80*
3.2 Decrease in tax rates		
3.3 Other decreases		
4. Closing balance	**151**	**180**

13.7 - Other information

Caption 130 "Tax assets: a) current" of € 3,722 thousand comprises:

- IRES advances of € 1,420 thousand;
- IRAP advances of € 1,340 thousand;
- tax credit on IRES reimbursement claims of € 234 thousand;
- tax credit for withholdings on deposits/current accounts/certificates of deposit of € 727 thousand;

Section 15 – Other assets – Caption 150

15.1 Other assets: breakdown

	31/12/2011
a) receivables from tax authorities and other tax bodies	5,229
b) cheques drawn on other banks	248
c) cheques to be received from clearing house and drawn on customer	9,816
d) suspense items	
e) revenue stamps and other stamps	3
f) gold, silver and other precious metals	-
g) shortfalls, embezzlement, theft and other prior year items	7
h) items in transit	4,140
i) leasehold improvements	68
l) accrued income	48
m) prepayments	332
n) other	4,085
Total	**23,976**

Specifically, in the above table:

-point m) mostly consists of prepaid insurance premiums;
-point n) includes sundry amounts of € 759 thousand.

LIABILITIES

Section 1 - Due to banks - Caption 10

1.1 Due to banks: breakdown by product

	31/12/2012	31/12/2010
1. Due to central banks	**105,000**	**-**
2. Due to banks	**6,254**	**7,422**
2.1 Current accounts and demand deposits	4,050	7,250
2.2 Term deposits	2,204	172
2.3 Financing	-	-
2.3.1 Reverse repurchase agreements		
2.3.2 Other		
2.4 Commitments to repurchase own equity instruments		
2.5 Other payables		
Total	**111,254**	**7,422**
Fair value	**111,254**	**7,422**

The € 105,000 thousand balance in Point 1 of the above represents the ECB financing pursuant to the rules about refinancing the Euro system guaranteed by financial assets. It includes the financing set out in the following table:

Drawdown date	Expiry date	Amount
14/12/2011	18/01/2012	€ 35,000 thousand
22/12/2011	29/01/2015	€ 30,000 thousand
28/12/2011	04/01/2012	€ 40,000 thousand
Total		**€ 105,000 thousand**

The ECB granted these amounts against eligible securities owned by the bank pledged as security.

These securities are shown in Part B Notes to the statement of financial position, Other information in table 2 Assets pledged as guarantee for liabilities and commitments

Section 2 - Due to customers - Caption 20

2.1 Due to customers: breakdown by product

	31/12/2012	31/12/2010
1. Current accounts and demand deposits	822,530	818,002
2. Term deposits	18,679	20,253
3. Financing	12,197	65,553
3.1 Reverse repurchase agreements	*12,197*	*65,553*
3.2 Other		
4 Commitments to repurchase own equity instruments	-	-
5 Other payables	1,568	1,494
Total	**854,974**	**905,302**
Fair value	**854,974**	**905,302**

Section 3 - Securities issued - Caption 30

3.1 Securities issued: breakdown by product

	31/12/2011				31/12/2010			
	Carrying amount	Fair value			Carrying amount	Fair value		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
A. Securities	**305,545**	**-**	**-**	**309,652**	**270,974**	**-**	**-**	**273,467**
1. bonds	247,015	-	-	250,654	223,645	-	-	226,135
1.1 structured								
1.2 other	*247,015*			*250,654*	*223,645*			*226,135*
2. other securities	58,530	-	-	58,998	47,329	-	-	47,332
2.1 structured								
2.2 other	*58,530*			*58,998*	*47,329*			*47,332*
Total	**305,545**	**-**	**-**	**309,652**	**270,974**	**-**	**-**	**273,467**

The debt instruments in the "Level 3-fair value" column are bonds and certificates of deposit issued by the bank. The latter are measured at amortised cost.

Section 4 – Financial liabilities held for trading – Caption 40

4.1 Financial liabilities held for trading: breakdown by product

	31/12/2011					31/12/2010				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
A. Financial liabilities										
1. Due to banks										
2. Due to customers										
3. Debt instruments	-	-		-	-	-	-		-	-
3.1. Bonds	-	-		-	-	-	-		-	-
3.1.1 Structured										
3.1.2 Other bonds										
3.2. Other securities	-	-		-	-	-	-		-	-
3.2.1 Structured										
3.2.2 Other										
Total A	**-**	**-**		**-**	**-**	**-**	**-**		**-**	**-**
B. Derivatives										
1. Financial derivatives	43,288	-	1,424	-	1,424	41,626	-	1,512	-	1,512
1.1 Trading	*43,288*		*1,424*	-	*1,424*	*41,626*		*1,512*	-	*1,512*
1.2 Associated with fair value option										
1.3 Other	-		-	-	-	-		-	-	-
2. Credit derivatives	-	-	-	-	-	-	-	-	-	-
2.1 Trading										
2.2 Associated with fair value option										
2.3 Other										
Total B	**43,288**	**-**	**1,424**	**-**	**1,424**	**41,626**	**-**	**1,512**	**-**	**1,512**
Total (A + B)	**43,288**	**-**	**1,424**	**-**	**1,424**	**41,626**	**-**	**1,512**	**-**	**1,512**

Key:

FV = Fair value
FV* = fair value calculated by excluding changes in value due to changes in the issuer's credit standing compared to the issue date.

NA = nominal or notional amount

L1 = Level 1
L2 = Level 2
L3 = Level 3

Section 5 – Financial liabilities at fair value through profit or loss – Caption 50

5.1 Financial liabilities at fair value through profit or loss: breakdown by product

	31/12/2011					31/12/2010				
	NA	FV			FV*	NA	FV			FV*
		L1	L2	L3			L1	L2	L3	
1. Due to banks		-		-	-	-	-		-	-
1.1 Structured										
1.2 Other										
2. Due to customers	-	-		-	-	-	-		-	-
2.1 Structured										
2.2 Other										
3. Debt instruments	-	-	-		-	1,626	-	1,685		1,685
3.1 Structured	-			-		-			-	
3.2 Other	-		-		-	1,626		1,685		1,685
Total A	-	-	-	-	-	1,626	-	1,685	-	1,685

Key:

FV = Fair value
FV* = fair value calculated by excluding changes in value due to changes in the issuer's credit standing compared to the issue date.

NA = nominal or notional amount

L1 = Level 1
L2 = Level 2
L3 = Level 3

5.3 Financial liabilities at fair value through profit or loss: changes

	Due to banks	Due to customers	Securities issued	Total
A. Opening balance			1,685	1,685
B. Increases	-	-	-	-
B1. Issues			-	-
B2. Sales				-
B3. Fair value gains				-
B4. Other increases				-
C. Decreases	-	-	1,685	1,685
C1. Purchases				-
C2. Repayments			1,626	1,626
C3. Fair value losses			17	17
C4. Other decreases			42	42
D. Closing balance	-	-	-	-

The last bond issue carried at fair value under the fair value option, adopted upon the transition to the IFRS, matured during the year. Bonds issued during the year are measured at amortised cost, consistently with the approach taken in previous years.

Therefore, this caption has a nil balance at the reporting date.

Section 8 – Tax liabilities – Caption 80

8.1 Current tax liabilities

	31/12/2011
Current tax liabilities	**1,608**
IRES advance	72
IRAP advance	1,324
IRES reimbursement claim for 10% IRAP deductibility	
Prior year tax receivables	212

Pursuant to article 23.5/6 of Law decree no. 98 of 6 July 2011, converted by Legislative decree no. 111/2011, the IRAP rate for banks was increased by 0.75%. Therefore, the bank calculated its accrual for current taxes using the new rate, which is 5.48% for the Marche region.
It reversed the excess amount of € 1,300 thousand in the provision for taxation, reversing it to caption 260 of the income statement (Income tax expense).

Section 10 – Other liabilities – Caption 100

10.1 Other liabilities: breakdown

	31/12/2011
Tax liabilities	2,887
Social security liabilities	974
Amounts available to customers	745
Third party guarantee deposits	14
Suspense items	-
Other amounts due to employees	2,429
Items in transit	11,419
Accrued expenses	97
Deferred income	245
Portfolio adjustment differences	2,838
Other	138
Total	**21,786**

Section 11 – Post-employment benefits – Caption 110

11.1 Post-employment benefits: changes

	31/12/2011	31/12/2010
A. Opening balance	**10,946**	**11,822**
B. Increases	**434**	**351**
B.1 Accruals	434	351
B.2 Other increases		
C. Decreases	**1,279**	**1,227**
C.1 Payments	592	673
C.2 Other decreases	687	554
D. Closing balance	**10,101**	**10,946**
Total	**10,101**	**10,946**

11.2 – Other information:

Breakdown of caption "B. Increases"

Service cost (for employees part of the open Previdsystem pension fund)	777
Revaluation	434
Total	**1,211**

Breakdown of caption "C. Decrease - C.2 Other decreases"

Decrease due to post-employment benefits reform as per Legislative decree no. 252/2005	-
Advances and payments for employee departures	1,231
Substitute tax on revaluation	48
Total	**1,279**

Actuarial assessment of post-employment benefits

Present value of benefits at 31/12/2010	10,966
Interest cost	434
Service cost	-
Payments	- 1,279
Total	**10,121**
Present value of benefits at 31/12/2011	8,617
Cumulated actuarial gains	1,595

Since 1 January 2007, post-employment benefits are transferred to either the INPS treasury fund or a supplementary pension fund. Therefore, the actuarial calculation considers the accrued benefits, i.e., the total liability for each employee. The calculation is based on demographic and economic assumptions already used in 2010.

Reference was made to the yield on treasury bonds at the reporting date for the financial assumptions as they are deemed to adequately comply with the requirements of IAS 19.

The considerable increase in yields on government bonds led to a concurrent rise in the actuarial gain with an excess of € 584 thousand compared to the amount allowed by the corridor approach. As this amount is immaterial, the bank did not recognise it.

Section 12 – Provisions for risks and charges – Caption 120

12.1 Provisions for risks and charges: breakdown

	31/12/2011	31/12/2010
1. Internal pension funds	9,688	10,531
2. Other provisions for risks and charges	1,787	1,591
2.1 legal disputes	*1,621*	*1,491*
2.2 personnel expense		-
2.3 other	*166*	*100*
Total	**11,475**	**12,122**

12.2 Provisions for risks and charges: changes

	Pension funds	Other provisions	Total
A. Opening balance	**10,531**	**1,591**	**12,122**
B. Increases	**120**	**580**	**700**
B.1 Accruals	120	580	700
B.2 Changes due to passage of time			-
B.3 Changes due to variations in discount rate			-
B.4 Other increases			-
C. Decreases	**963**	**384**	**1,347**
C.1 Utilisations	909	384	1,293
C.2 Changes due to variations in discount rate			-
C.3 Other decreases	54		54
D. Closing balance	**9,688**	**1,787**	**11,475**

Utilisation of these provisions amounted to € 384 thousand and referred to the settlement of legal disputes recognised in caption 160 of the income statement.
Other provisions for risks and charges of € 1,787 thousand, shown in table 12.1, may be analysed as follows by type of litigation:

- Civil litigation	902,575
- Claw-back claims	575,493
- Sureties	64,234
- Lump-sum endorsement credits	144,502
- Labour disputes	79,168
- Other charges	21,000
- **Total**	

As can be seen, the larger accruals are made for civil litigation, mostly related to third party claims about the charging of compound interest or interest exceeding the legal rate.
Risks for ongoing proceedings about securities trading are modest, also given the:
1) limited number of legal actions: eight at the reporting date for which the bank has accrued € 26 thousand;
2) generally modest amounts involved;
3) rulings at all levels in the bank's favour.

The accrual for claw-back claims refers to 12 customers under bankruptcy proceedings for which the court ruling had not been handed down at the reporting date.

The bank is unaware of other liabilities at the reporting date that could give rise to costs other than those provided for above.

With respect to contingent liabilities, that are not provided for specifically, they mostly relate to litigation for which the outlay cannot be determined, should the relevant rulings not be in the bank's favour, or it is not likely that any outlay will be necessary. They principally refer to proceedings which the bank has already won at previous court hearings.

The bank reviews these liabilities (both recognised and potential) every six months so as to update its assessments.

12.3 Defined benefit internal pension plans

The bank's pension fund ("*Fondo d'integrazione delle pensioni dell'assicurazione obbligatorio per l'invalidità, la vecchiaia ed i superstiti gestita dall'INPS per il Personale - ruolo credito - della Cassa di Risparmio di Fermo*"), included in the special section III as number 9107 of the Pension funds register held by COVIP (the Italian pension regulator) and recognised in caption 120-a on the liabilities side of the statement of financial position, is regulated by the Agreement of 4 December 1990, Legislative decree no. 124/93, the new legislative framework as defined by Law no. 335 of 8 August 1995 and the measure attached to the 1998 Finance Act (Law no. 449/12) as well as the agreement of 18 October 2000 for the fund's transformation by setting up a defined contribution part from 1 January 2001.

The fund's object is to provide its beneficiaries and their surviving family members with a supplementary pension in addition to that provided by INPS.

Following the aforesaid transformation agreement, the fund covers the bank's employees that had retired at 31 December 2000 or their surviving family members. The bank pays in a contribution in order to ensure its actuarial balance.

At the reporting date, the fund had 144 beneficiaries, including those with zero annuities as shown in the following table:

Gender	Direct	Indirect or reversible	Total
Women	5	51	56
Men	75	13	88
Total	80	64	144

The actuarial calculations were based on a projection of the individual beneficiaries' positions at the reporting date. This projection was extended until the complete extinguishment of the obligations based on a hypothetical system based on:

1. legislative parameters;
2. demographic parameters;
3. economic parameters;
4. financial parameters.

The generation RG 48 chart prepared by the General Accounting Office was used for the demographic parameters while the estimates usually used for INPS simulates was used for the family beneficiaries.

An annual increase in prices of 2.00% over the long term was assumed for the economic parameters. The effects of the substantial elimination of the equalisation clause were estimated with linking to the "equal grade of service". The equalisation rates using the assumed inflation rates were:

BRACKET	RATE
Up to 3 times the minimum treatment	2.00%
From 3 to 5 times the minimum treatment	1.80%
More than 5 times the minimum treatment	1.50%

With respect to the financial parameters, the current situation was assessed, characterised by the illiquid corporate bond markets, as confirmed by the recent amendment to IAS 39.

Therefore, reference was made to the yield curve for treasury bonds at the reporting date as this seems suitable given the IAS 19 requirements.

The average present value appraised by the relevant expert of the cost of integrating and substituting the pension plan for the 144 beneficiaries is in line with the amount recognised in the financial statements.

Technical accounts at 31/12/2011	
Modified present value - immediate charges	8,588
Modified present value - total charges	8,588
Mathematical reserve at 31/12/2010	9,911
Equity at 31/12/2011	9,688
Mathematical reserve	8,588
TECHNICAL SURPLUS	**1,100**
Calculation of actuarial gains/losses for IFRS purposes	
Mathematical reserve at 31 December 2010	9,911
Interest cost	483
Service cost	0
Payments	-909
Actuarial gain (-) / loss (+) at 31/12/2011	**-896**

Section 14 – Equity – Captions 130, 150, 160, 170, 180, 190 and 200

14.1 "Share capital" and "Treasury shares": breakdown

The fully subscribed and paid-in share capital consists of 759,750 shares with a nominal amount of € 51.65 for a total € 39,241,087.50.

The bank's shareholders are:

- Fondazione Cassa di Risparmio di Fermo, with 506,500 ordinary shares equal to an investment of 66.67%;
- Banca Intesa S.p.A., with 253,250 ordinary shares equal to an investment of 33.33%.

The caption did not undergo any change during the year.

14.2 Share capital - number of shares: changes

	Ordinary	Other
A. Opening balance	**759,750**	**-**
- fully paid-in	*759,750*	
- not fully paid-in	-	
A.1 Treasury shares (-)		
B.2 Outstanding shares: opening balance	**759,750**	**-**
B. Increases	**-**	**-**
B.1 New issues	-	-
- against consideration:	-	-
- business combinations		
- bond conversions		
- exercise of warrants		
- other		
- bonus issue:	-	-
- to employees		
- to directors		
- other		
B.2 Sale of treasury shares	-	-
B.3 Other increases	-	-
C. Decreases	**-**	**-**
C.1 Cancellations		
C.2 Repurchases of treasury shares		
C3 Disposals of equity investments		
C.4 Other decreases		
D. Outstanding shares: closing balance	**759,750**	**-**
D.1 Treasury shares (+)	-	-
D.2 Closing balance	759,750	-
- fully paid-in	*759,750*	-
- not fully paid-in	-	-

14.4 Income-related reserves: other information

	LEGAL RESERVE	STATUTORY RESERVE	OTHER
OPENING BALANCE	**14,640**	**40,744**	**3,284**
INCREASES	**225**	**500**	
Allocation of profits	225	500	
DECREASES	**-**	**-**	**14**
Other changes (negative FTA reserve)			14
CLOSING BALANCE	**14,865**	**41,244**	**3,270**

The legal reserve was increased by the allocation of 10% of the profit for the year as provided for by article 24 of the by-laws.

The statutory reserve includes:

- 15% of the profit for the year as provided for by article 24 of the by-laws;
- reclassification of the income-related reserves for € 15,200 thousand as determined during FTA.

The other reserves comprise:

- the contribution reserve as per Law no. 218/90 net of the valuation reserve recognised during FTA of € 2,860 thousand.

14.4.1 Equity: breakdown, availability and distributability of the different captions

	Amount	Possible use (1)	Available portion	Summary of use in the last 3 years (2)	
				To cover losses	For other purposes
Share capital	39,241,087.50				
Equity-related reserves:					
Contribution reserve	15,121,767.94	A,B,C	15,121,767.94		- 213,816.73
Revaluation reserve	6,129,826.94	A,B,C	6,129,826.94		
Share premium reserve (3)	34,660,068.07	A,B,C	34,660,068.07		
Income-related reserves:					
Legal reserve	14,865,288.72	B	7,017,071.22		
Statutory reserve	41,243,843.43	B	-		
FTA reserve	- 2,860,067.03		-		
Fair value reserve	- 7,547,200.40		-		213,816.73
Retained earnings	-		-		
Total	**140,854,615.17**		**62,928,734.17**	**-**	**-**
Undistributable portion (4)			68,313.79		
Remaining distributable portion			62,860,420.38		

in Euros

Key:

A = share capital increase
B = to cover losses
C= dividend distribution

Note:

(1) = Except for additional constraints imposed by by-laws

(2) = Utilisations are shown from 2000 as comparative previous years' data are unavailable

(3) = Pursuant to article 2431 of the Italian Civil Code, the entire reserve can only be distributed when the legal reserve has reached the threshold set by article 2430 of the Italian Civil Code.

(4) = The portion that cannot be distributed due to: the translation reserve, the reserve for equity-accounted investees, the reserve for departures as per article 2413.4 of the Italian Civil Code and the part allocated to cover unamortised deferred costs as per article 2426.5 of the Italian Civil Code.

14.7 Valuation reserves: breakdown

	31/12/2011	31/12/2010
1. Available-for-sale financial assets	- 7,547	- 2,357
2. Property, equipment and investment property		
3. Intangible assets		
4. Hedges of investments in foreign operations		
5. Cash flow hedges		
6. Exchange rate gains (losses)		
7. Non-current assets held for sale		
8. Special revaluation laws	15,122	15,122
Total	**7,575**	**12,765**

OTHER DISCLOSURES

1. Guarantees and commitments

	31/12/2011	31/12/2010
1) Financial guarantees issued	**2,713**	**2,616**
a) Banks	2,518	2,421
b) Customers	195	195
2) Commercial guarantees issued	**35,533**	**37,331**
a) Banks	-	13
b) Customers	35,533	37,318
3) Irrevocable commitments to disburse funds	**44,213**	**57,778**
a) Banks	5,652	7,243
i) certain use	*5,652*	*7,243*
ii) uncertain use	-	-
b) Customers	38,561	50,535
i) certain use	*483*	*296*
ii) uncertain use	*38,078*	*50,239*
4) Commitments underlying credit derivatives: protection sales	**-**	**-**
5) Assets pledged as collateral for third party commitments	**-**	**-**
6) Other commitments	**-**	**-**
Total	**82,459**	**97,725**

2. Assets pledged as guarantee for liabilities and commitments

	31/12/2011	31/12/2010
1. Financial assets held for trading	64,661	64,703
2. Financial assets at fair value through profit or loss		
3. Available-for-sale financial assets	59,944	-
4. Held-to-maturity investments	5,038	
5. Due from banks		
6. Loans to customers		
7. Property, equipment and investment property		
TOTAL	**129,643**	**64,703**

Table 2 shows the securities pledged as guarantee for the bank's liabilities:
- repos of € 12,197 thousand;
- financing transactions with the ECB of € 117,446 thousand for a nominal amount of securities of € 130,860 thousand.

4. Management and trading on behalf of third parties

1. Execution of customer orders	**-**
a) Purchases	-
1. settled	
2. unsettled	
b) Sales	-
1. settled	
2. unsettled	
2. Asset management	**-**
a) individual	
b) collective	
3. Securities custody and administration	**2,167,243**
a) third party securities held as part of depository bank services (excluding asset management)	-
1. securities issued by the reporting entity	-
2. other securities	-
b) third party securities on deposit (excluding asset management): other	990,858
1. securities issued by the reporting entity	*236,781*
2. other securities	*754,077*
c) third party securities deposited with third parties	956,226
d) securities owned by the bank deposited with third parties	220,159
4. Other	**-**

5. Credit collection on behalf of third parties: adjustments

	31/12/2011	31/12/2010
a) "debit" adjustments	**351,537**	**294,901**
1) bank joint accounts	79,902	74,791
2) central portfolio	263,102	209,327
3) cash	866	999
4) other accounts	7,667	9,784
b) "credit" adjustments	**354,375**	**322,739**
1) bank joint accounts	80,796	78,414
2) transferors of bills and documents	273,579	243,792
3) other accounts		533
DIFFERENCE	**2,838**	**27,838**

The difference of € 2,838 thousand is shown under caption 100 "Other liabilities" in the statement of financial position. It is modest as it is not affected by the currency effect on the bills under reserve portfolio following application of the law to implement the Payment Services Directive (PSD). Payment of the bills was postponed to 2 January as 31 December was a bank holiday.

PART C
Notes to the income statement

Section 1 – Interest – Captions 10 and 20

1.1 Interest and similar income: breakdown

	Debt instruments	Financing	Other	2011	2010
1. Financial assets held for trading	4,650		-	4,650	3,210
2. Available-for-sale financial assets	2,313			2,313	1,727
3. Held-to-maturity investments	97			97	129
4. Due from banks		444		444	309
5. Loans to customers		41,781		41,781	38,334
6. Financial assets at fair value through profit or loss				-	-
7. Hedging derivatives			-	-	-
8. Other assets			171	171	-
Total	**7,060**	**42,225**	**171**	**49,456**	**43,709**

1.3 Interest and similar income: other information

1.3.1 Interest income on foreign currency financial assets

	2011
Interest income on foreign currency financial assets	56

1.4 Interest and similar expense: breakdown

	Liabilities	Securities	Other	2011	2010
1. Due to central banks	114			114	-
2. Due to banks	121			121	32
3. Due to customers	5,705			5,705	3,526
4. Securities issued		6,737		6,737	5,467
5. Financial liabilities held for trading			-	-	160
6. Financial liabilities at fair value through profit or loss		-		-	93
8. Other liabilities and provisions			149	149	-
9. Hedging derivatives			-	-	-
Total	**5,940**	**6,737**	**149**	**12,826**	**9,278**

1.6 Interest and similar expense: other information

1.6.1 Interest expense on foreign currency liabilities

	2011
Interest expense on foreign currency liabilities	6

Section 2 – Fees and commissions – Captions 40 and 50

2.1 Fee and commission income: breakdown

	2011	2010
a) guarantees issued	**-**	**-**
b) credit derivatives	**-**	**-**
c) management and brokerage services:	**212**	**253**
1. trading in financial instruments	128	168
2. foreign currency transactions		
3. asset management	-	-
3.1 own portfolio		
3.2 third party portfolios		
4. securities custody and administration	84	85
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**831**	**839**
e) other services	**32**	**31**
Total	**1,075**	**1,123**

The balance shown as letter "j" in the above table includes:[3]

Loan preliminary investigation fees	423
Financing fees	648
Bancomat (debit card) and home banking fees	507
Other commissions	643

[3] €'000

2.2 Fee and commission income: product and service distribution channels

	2011	2010
a) own branches:	**3,240**	**4,202**
1. asset management	-	-
2. securities placement	1,524	2,479
3. third party services and products	1,716	1,723
b) off-premises distribution:	**-**	**-**
1. asset management		
2. securities placement		
3. third party services and products		
c) other distribution channels:	**-**	**-**
1. asset management		
2. securities placement		
3. third party services and products		

2.3 Fee and commission expense: breakdown

	2011	2010
a) guarantees received	**-**	**-**
b) credit derivatives	**-**	**-**
c) management and brokerage services:	**212**	**253**
1. trading in financial instruments	128	168
2. foreign currency transactions		
3. asset management	-	-
3.1 own portfolio		
3.2 third party portfolios		
4. securities custody and administration	84	85
5. placement of financial instruments	-	-
6. off-premises distribution of securities, products and services	-	-
d) collection and payment services	**831**	**839**
e) other services	**32**	**31**
Total	**1,075**	**1,123**

Section 3 – Dividends and similar income – Item 70

3.1 Dividends and similar income: breakdown

	2011		2010	
	Dividends	Income from OEIC units	Dividends	Income from OEIC units
A. Financial assets held for trading				
B. Available-for-sale financial assets	195		262	
C. Financial assets at fair value through profit or loss				
D. Equity investments				
Total	**195**	**-**	**262**	**-**

Section 4 – Net trading expense – Caption 80

4.1 Net trading expense: breakdown

	Gains (A)	Trading income (B)	Losses (C)	Trading losses (D)	Net trading expense [(A+B) – (C+D)]
1. Financial assets held for trading	**30**	**802**	**13,634**	**506**	**- 13,308**
1.1 Debt instruments	30	802	13,634	503	- 13,305
1.2 Equity instruments			-	3	- 3
1.3 OEIC units					-
1.4 Financing					-
1.5 Other					-
2. Financial liabilities held for trading	**-**	**-**	**-**	**-**	**-**
2.1 Debt instruments					-
2.2 Payables					
2.3 Other					-
3. Other financial assets and liabilities: exchange rate gains (losses)					**132**
4. Derivatives	**630**	**251**	**618**	**177**	**86**
4.1. Financial derivatives:	630	251	618	177	86
- On debt securities and interest rates	630	251	618	177	86
- On equity instruments and equity indexes					
- On currencies and gold					-
- Other					-
4.2 Credit derivatives					-
Total	**660**	**1,053**	**14,252**	**683**	**- 13,090**

Currency: Costs, Revenue and Inventories

EXPENSES AND LOSSES:			REVENUE AND PROFITS:		
	2011	2010		2011	2010
A) Opening balance in foreign cu	166	125	E) Revenue from currency sales	69,765	65,192
B) Cost of purchasing currency	69,835	65,131	F) Closing balance	330	166
D) Total expenses	**70,001**	**65,256**	**H) Total revenue**	**70,095**	**65,358**

SUMMARY:		
	2011	2010
(+) Total revenue	***70,095***	***65,358***
(-) Total expenses	***- 70,001***	***- 65,256***
(+) Currency fees	***55***	***47***
(-) IFRS adjustments	***- 17***	***3***
Unrealised exchange rate gains	***132***	***152***

Section 6 – Gain (loss) from sales/repurchases – Caption 100

6.1 Gain (loss) from sales or repurchases: breakdown

	2011			2010		
	Gain	Loss	Net gain (loss)	Gain	Loss	Net gain (loss)
Financial assets						
1. Due from banks			-			-
2. Loans to customers			-			-
3. Available-for-sale financial assets	61	153	- 92	296	24	272
3.1 Debt instruments	*61*	*75*	- 14	*27*	*24*	3
3.2 Equity instruments	-	*78*	- 78	*269*		269
3.3 OEIC units			-			-
3.4 Financing			-			-
4. Held-to-maturity investments			-			-
Total assets	**61**	**153**	**- 92**	**296**	**24**	**272**
Financial liabilities						
1. Due to banks			-			-
2. Due to customers			-			-
3. Securities issued	26	86	- 60	80	98	- 18
Total liabilities	**26**	**86**	**- 60**	**80**	**98**	**- 18**

Section 7 – Net losses on financial assets and liabilities at fair value through profit or loss – Caption 110

7.1 Net losses on financial assets and liabilities at fair value through profit or loss: breakdown

	Gains (A)	Profit on sale (B)	Losses (C)	Loss on sale (D)	Net gains (losses) [(A+B) – (C+D)]
1. Financial assets	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments					-
1.2 Equity instruments				-	-
1.3 OEIC units					-
1.4 Financing					-
2. Financial liabilities	**-**	**16**	**-**	**-**	**16**
2.1 Debt instruments	-	16			16
2.2 Due to banks					-
2.3 Due to customers					-
3. Foreign currency financial assets and liabilities: exchange rate					
4. Credit and financial derivatives		**-**	**19**	**-**	**- 19**
Total	**-**	**16**	**19**	**-**	**- 3**

Section 8 – Net impairment losses – Caption 130

8.1 Net impairment losses on loans and receivables: breakdown

	Impairment losses (1)			Reversals of impairment losses (2)				2011	2010
	Individual		Collective	Individual		Collective			
	Derecognition	Other		A	B	A	B		
A. Due from banks		-	-	-	-	-	-	-	-
- Financing		-	-	-	-	-	-	-	-
- Debt instruments	-	-	-	-	-	-	-	-	-
B. Loans to customers	- 366	- 7,322	- 15	2,892	2,499	-	269	- 2,043	- 460
- Financing	- 366	- 7,322	- 15	2,892	2,499	-	269	- 2,043	- 460
- Debt instruments									
C. Total	**- 366**	**- 7,322**	**- 15**	**2,892**	**2,499**	**-**	**269**	**- 2,043**	**- 460**

The "Reversals of impairment losses (2) Individual" column includes € 425 thousand of default interest collected on non-performing loans and the release of reversals of impairment losses on interest for discounting to profit or loss as follows:
on substandard loans € 1,082 thousand;
on non-performing loans € 1,385 thousand.
The "Reversals of impairment losses (2) Individual B" column includes reversals due to collections of non-performing loans of € 910 thousand and reversals of fair value losses of € 473 thousand; those related to substandard loans amount to € 1,116 thousand.

8.2 Net impairment losses on AFS financial assets: breakdown

	Impairment losses (1)		Reversals of impairment losses (2)		2011	2010
	Individual		Individual			
	Derecognition	Other	A	B		
A. Debt instruments					-	-
B. Equity instruments		-			-	57
C. OEIC units					-	-
D. Financing to banks					-	-
E. Financing to customers					-	-
F. Total	**-**	**-**	**-**	**-**	**-**	**57**

Section 9 – Administrative expenses – Caption 150

9.1 Personnel expense: breakdown

	2011	2010
1) Employees	**26,520**	**27,349**
a) wages and salaries	18,197	18,936
b) social security charges	4,985	4,884
c) post-employment benefits		-
d) pension costs	-	-
e) accrual for post-employment benefits	1,632	1,575
f) accrual for pension and similar provisions:	66	288
- defined contribution plans		
- defined benefit plans	*66*	*288*
g) payments to external supplementary pension funds	698	689
- defined contribution plans	*698*	*689*
- defined benefit plans	-	-
h) costs of share-based payment plans	-	-
i) other employee benefits	942	977
2) Other personnel	-	
3) Directors and statutory auditors	973	823
4) Retired personnel		
5) Cost recoveries for personnel seconded to other companies	-	- 3
6) Cost reimbursements for personnel seconded to the bank		
Total	**27,493**	**28,169**

Point 3 of the table includes the statutory auditors' fees and the directors' insurance policies.

9.2 Average number of employees per category

	31/12/2011	2011 average	31/12/2010
• Employees	**404**	**409**	**413**
a) managers	**2**	**2**	**2**
b) junior managers	**102**	**103**	**103**
- including: 3rd and 4th level	*40*	40	*40*
c) other employees (including cleaning staff)	**300**	**304**	**308**
- including: 3rd professional group	292	289	299
- including: 2nd professional group	7	8	8
- including: cleaning staff	1	1	1
• Other personnel	**13**	**13**	**13**

The average was determined considering the part-time personnel for 50%.

9.3 Defined benefit internal pension funds: total costs

	2011	2010
Defined benefit internal pension plan for retired employees	**66**	**288**

9.4 Other employee benefits

	2011	2010
Other employee benefits	**942**	**977**

This caption mainly comprises of € 138 thousand of training costs, € 228 thousand for life, accident and health insurance policies and € 499 thousand of lunch vouchers.

9.5 Other administrative expenses: breakdown

	2011	2010
1 - credit collection legal fees	1,305	1,370
2 - sundry and technical legal consultancy	762	628
3 - maintenance, repairs, conversions	744	878
4 - lease of premises	1,137	1,107
5 - cleaning services	507	511
6 - rental of machinery and data transmission lines	1,264	1,382
7 - security and security transportation	551	550
8 - lighting and heating	642	668
9 - stationery and printed matter	140	198
10 - postal, telegraph, telex, telephone	602	716
11 - insurance	396	406
12 - advertising	480	555
13 - subscriptions and purchases of publications	97	103
14 - third party service costs	2,940	2,949
15 - transportation and relocation	170	174
16 - membership fees	177	172
17 - other	804	500
Subtotal of other administrative expenses	**12,718**	**12,867**
Indirect taxes and duties		
1 - stamp duty	2,742	2,622
2 - local property tax	146	146
3 - other	557	662
Total indirect taxes and duties	**3,445**	**3,430**
Total other administrative expenses	**16,163**	**16,297**

Total fees due to the independent auditors that perform the legally-required audit are as follows:

- legally-required audit of the annual financial statements € 71,692;
- review of the interim financial report at 30 June € 25,858.
- preparation of the financial statements in English € 12,000
- signing of the tax returns € 5,027

These fees include VAT.

Section 10 – Net accruals to provisions for risks and charges – Caption 160

10.1 Net accruals to provisions for risks and charges: breakdown

	2011
1- accrual for legal disputes	254
2- accrual for claw-back claims	259
3- other	66
Total accruals	**579**
Utilisation to settle legal disputes	384
Total utilisations	**384**
Total net accruals	**195**

Utilisation of these provisions for € 384 thousand referred to the settlement of legal disputes recognised in caption 160 of the income statement.

Section 11 – Depreciation and net impairment losses on property, equipment and investment property – Caption 170

11.1 Depreciation and net impairment losses on property, equipment and investment property: breakdown

	Depreciation (a)	Impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Property, equipment and investment property				
A.1 Owned	1,299	-	-	1,299
- operating assets	*1,299*			*1,299*
- investment property				-
A.2 Acquired under finance lease	-	-	-	-
- operating assets				-
- investment property				-
Total	**1,299**	**-**	**-**	**1,299**

Section 12 – Amortisation and net impairment losses on intangible assets – Caption 180

12.1 Amortisation and net impairment losses/reversals of impairment losses on intangible assets: breakdown

	Amortisation (a)	Individual impairment losses (b)	Reversals of impairment losses (c)	Carrying amount (a + b – c)
A. Intangible assets				
A.1 Owned	42	-	-	42
- Generated internally				-
- Other	*42*			*42*
A.2 Acquired under finance lease				-
Total	**42**	**-**	**-**	**42**

Section 13 – Net other operating income – Caption 190

13.1 Other operating expense: breakdown

	2011
1 - Charitable donations	- 5
2 - Contributions to bodies and municipalities receiving treasury services	- 149
3 - Amortisation of leasehold improvements	- 34
4 - Losses for theft	- 43
5 - Other	- 350
Total other operating expense	**- 581**

13.2 Other operating income: breakdown

	2011
1 - Recoveries of administrative expenses	1,019
2 - Security box fees	47
3 - Lease income	187
4 - Other income	4,040
Total other operating income	**5,293**
Total	**4,712**

Section 17 – Net gains on sales of investments – Caption 240

17.1 Net gains on sales of investments: breakdown

	2011	2010
Property	**-**	**-**
- Gains on sales		-
- Losses on sales		
B. Other assets	**18**	**10**
- Gains on sales	21	24
- Losses on sales	- 3	- 14
Net gains on sales of investments	**18**	**10**

Section 18 – Income taxes – Caption 260

18.1 Income taxes: breakdown

	2011	2010
1. Current taxes (-)	- 1,397	- 2,957
2. Change in current taxes from previous years (+/-)		
3. Decrease in current taxes for the year (+)	1,300	
4. Change in deferred tax assets (+/-)	- 175	- 112
5. Change in deferred tax liabilities (+/-)		
6. Tax expense for the year (-)(-1+/-2+3+/-4+/-5)	**- 272**	**- 3,069**

Point 3 of the above table shows the utilisation of the excess part of the provision for taxation (€ 1,300 thousand) compared to the estimated tax expense.

18.2 Reconciliation between the theoretical and effective tax expense

	Caption	Amount
Pre-tax profit for the year	**406**	
Effective IRES tax rate	27.50%	
Theoretical tax expense		**112**
Permanent and temporary differences		- 40
a) dividends	- 185	
b) other	39	
IRES tax		**72**
Pre-tax profit for the year	**406**	
Effective IRAP tax rate	5.50%	
Theoretical tax expense		**22**
Permanent differences for IRES purposes	-	
Permanent differences for IRAP purposes	2,243	**1,303**
a) non-deductible personnel expense	20,749	
b) impairment losses/reversals of impairment losses on loans and rece	2,043	
c) other	- 1,350	
IRAP tax		**1,325**
Income tax expense		**1,397**

Section 21 – Earnings per share

21.1 Average number of ordinary shares with dilutive effect

	2011	2010
Weighted average number of shares	759,750	759,750
Profit attributable to the share categories (Euro)		1,519,500
Basic EPS (Euro)		2.00
Diluted EPS (Euro)	-	2.00

Pursuant to IAS 33.10/33:

a) basic EPS are calculated by dividing the profit for the year attributable to the holders of ordinary shares by the weighted average number of shares outstanding in the year;

b) diluted EPS are calculated by dividing the profit for the year by the average number of ordinary shares outstanding in the year, adjusted to reflect the diluting effects of options.

At the reporting date, the bank decided not to distribute dividends to the holders of ordinary shares pursuant to Banca d'Italia's instructions about capitalisation.
Therefore and in accordance with article 25 of the by-laws, the profit for the year has been allocated as follows:

1. € 13,375 to the ordinary reserve, as per article 25 of the by-laws;

2. € 20,062 to the extraordinary reserve, as per article 25 of the by-laws;
3. € 100,309 to the extraordinary reserve, as decided by the board of directors.

The numerator used to calculate the basic EPS is € 0. With respect to the denominator, the weighted average number of the ordinary shares outstanding is unchanged at 759,750.

The bank has not repurchased treasury shares. It has not issued nor does it have shares with dilutive effects.

Therefore, the basic and diluted EPS are the same.

PART D

Segment reporting

BREAKDOWN OF COMPREHENSIVE INCOME

		Gross amount	Income tax	Net amount
10.	**Profit for the year**			**134**
	Other comprehensive expense			
20.	Available-for-sale financial assets:	- 7,786	- 2,596	- 5,190
	a) fair value losses	- 7,786	- 2,596	- 5,190
	b) reclassification to profit or loss	-	-	-
	- impairment losses	-	-	-
	- gains/losses on sales			
	c) other changes	-	-	-
30.	Property, equipment and investment property	-	-	-
40.	Intangible assets	-	-	-
50.	Hedges of investments in foreign operations	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
60.	Cash flow hedges:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes		-	-
70.	Exchange rate gains (losses):	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
80.	Non-current assets held for sale:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	c) other changes	-	-	-
90.	Actuarial gains (losses) on defined benefit plans	-	-	-
100.	Portion of valuation reserves of equity-accounted investees:	-	-	-
	a) fair value gains (losses)	-	-	-
	b) reclassification to profit or loss	-	-	-
	- impairment losses	-	-	-
	- gains/losses on sales	-	-	-
	c) other changes	-	-	-
110.	**Total other comprehensive expense**	**- 7,786**	**- 2,596**	**- 5,190**
120.	**Comprehensive expense (10 + 110)**			**- 5,056**

PART E
Risks and related hedging policies

SECTION 1 - CREDIT RISK

General information

Risk management (monitoring, management and measurement) is a fundamental creator of value for the bank and its stakeholders. Accordingly, the bank's control units (Inspection and Internal Audit, Risk Governance and Compliance and Risk Control) are given complete independence and operating powers to ensure the correct and complete presentation of risks to the board of directors, the board of statutory auditors, the independent auditors, the shareholders and all those who have direct and indirect interests in the bank's equity. This information about risks is regulated by a specific regulation included in the bank's more general corporate governance policy.

The bank adopted the new supervisory Basel II regime, presented in Banca d'Italia Circular no. 263/06, on 1 January 2008. It opted to use the regulatory criteria established for category 3 banks (banks with assets of less than € 3.5 billion) as the capital quantification criteria (Pillar II).
The bank's material risks are assessed using the Internal Capital Adequacy Assessment Process (ICAAP), identifying their materiality by measuring absorbed capital using the above criteria and measuring the total absorption of capital using the building block approach.
The assessment also covers organisational-operating aspects entailing the in-depth understanding of the measurement and control tools used for management purposes, which have been suitably described and integrated into documented policies, regulations and procedures to best comply with the relevant legislation.

As provided for by Chapter IV of Banca d'Italia Circular no. 263/06 "Market disclosures" (Pillar III), the bank publishes "... information about its capital adequacy, exposure to risks and the general characteristics of the systems in place to identify, measure and manage risks" in its "Pillar 3, Market disclosures, situation at 31/12/..." document together with its annual report each year on its website "www.carifermo.it" in the financial reporting section.

Qualitative disclosure

1. General aspects

The bank's lending policies are aimed at obtaining a satisfactory risk/return ratio with the careful and efficient control over risks inherent in the banking sector. In line with its mission, the bank focuses on extending credit to households and SMEs, with products designed to help develop production activities. Its natural inclination towards promoting loans to small businesses is of great importance for its partnership with the underwriting syndicates. Although it privileges its local social and economic environment, the bank also builds up its customer portfolio in areas where it has a smaller base, partly to mitigate its risks.

The bank is careful when granting and monitoring credit that it does not build up risk concentrations in one sector or industry or, with respect to households, in certain age brackets.

It tends to privilege individuals intending mostly to buy residential property in the long-term segment.

The bank has a policy of ongoing improvement to safeguard both the debtors and their families as well as itself, covering product efficiency, insurance policies for pure risk with cover for death, invalidity and dismissals, for the total or partial repayment of the outstanding loans and receivables in the case of a claim.

2. Credit risk management policies

2.1 Organisational aspects

The structures which decide and organise the granting of credit have different operating powers, depending on whether they are at the branches (split by size) or the head office (board of directors, managing director, deputy general manager, department, division and office heads). Each level is defined considering the overall risk assessment of each customer and potential associated customers, the type of credit, the direct and indirect exposure and type of guarantee.

The lending procedure also includes policies and controls for risk management carried out by the following head office units:

- **Loans office:** assists the branches with the preliminary investigations stage, assesses credit facility applications approved by the relevant branch bodies, checking compliance with their powers, checks existing credit facilities and that the branches renew them.
- **Risk control office**: regularly monitors business risk irregularities using data provided by special computerised procedures and the Inspection and Internal Audit Unit; proposes classification of positions in temporary difficulties as "doubtful", encouraging the branches to have them return to a "performing" status and coordinating the related activities; monitors and checks "restructured" positions; prepares a quarterly report for senior management on the situation and changes in reported positions.
- **Risk Management**: assesses and develops credit risk measurement methodologies in line with best practices; carries out static and dynamic analyses of the loan portfolio's risk profile and reports thereon every month to senior management and bank risk monitoring units.
- **Compliance office**: analyses credit lending procedures and processes and related contracts to check aspects subject to potential legal risk and non-compliance with current legislation.

2.2 Management, measuring and control systems

In order to identify any deterioration in customers' credit standing in advance, the bank uses a tool to check its relationships with its ordinary customers together with the information available in the risk database, which identifies irregularities with a potential negative impact on risk. This tool (Credit Position Control - CPC) gives each borrower a score from between -100 (minimum risk) to +100 (maximum risk) and is used by the Risk Management Unit to produce its regular reports for the banks and relevant internal units.

Quarterly reports analysing the entire portfolio's risk by business and geographical segment are prepared for senior management.

The Risk Management Unit uses a model to estimate expected defaults and its results are considered when determining the collective impairment losses on performing loans. The model determines the probability of default (PD), the exposure at default (EAD), the loss given default (LGD) and the weighted remaining life of the loan considering external information (loan deterioration rates from Banca d'Italia's database) and internal estimates (recovery rates of non-performing loans) and the mitigating effect of any guarantees.

The bank has a rating system (SARa - automatic rating system) for management purposes only, which complies with Basel II requirements. It is used to determine the counterparty rating and the PD in one year based on performance trends, analyses of counterparties' financial statements and other qualitative information, collected in questionnaires from the branches.

2.3 Credit risk mitigation techniques

The bank uses credit risk mitigation techniques and tools, the classification and utilisation of which are set out in the "Credit risk mitigation policies" document approved by the board of directors on 20 May 2008 and revised on 25 January 2011 following the fifth update of Banca d'Italia Circular no. 263/06. The document requires that:

- The bank obtains qualifiable and acceptable guarantees, such as CRM tools, for its credit exposure on a preferential basis, without waiving those without these requirements as additional protection of credit.
- "Collateral or personal guarantees, regardless of their acceptability as CRM tools, are considered to be ancillary compared to the credit transaction and cannot replace or make less effective the assessment of the debtor's repayment ability or be included in the assessment of the counterparty's credit standing or the riskiness of the transaction".

Highly mitigating factors are collateral, consisting of pledges of highly liquid financial assets and mortgages on residential property. Other mitigating guarantees are mortgages on non-residential property, personal guarantees depending on the guarantor's standing and pledges of financial assets other than government bonds.

The credit risk mitigation factors are assessed using a hierarchical classification system for the credit types, based on the intrinsic LGD, and the guarantees, based on their potential risk mitigation potential. Each risk category is given a weighing factor which estimates the overall risk level when applied to the counterparty's overall credit.

With respect to financial collateral acceptable as CRM, the bank meets the requirements of Circular no. 263/06.

In accordance with the above supervisory regulations and with respect to exposures guaranteed by property, the bank has systems which monitor the property's value on a statistical basis and operating procedures to check its actual value. It has also introduced a rule for the assessment of buildings which sets out the general criteria for property evaluations by experts.

The bank uses standard contracts for guarantees. If they are inadequate, the relevant offices prepare ad hoc contracts which are checked by the Compliance Office and, if necessary, external experts.

The bank did not have credit derivatives at the reporting date.

2.4 Impaired financial assets

The Risk Control Office and Legal Affairs Office manage non-performing loans.

Based on the information obtained from internal reports on loan performance and irregularities (monitoring of trends, identification of unpaid instalments and suspect cheques, items to be fixed, past due and/or overdue loans, reports from branches, inspection reports, etc.) and external sources (central risk database, CAI, external provider reports on injurious positions, etc.), the Risk Control Office assesses whether to adopt measures to contain risk and proposes classification of loans in temporary/financial difficulties as "doubtful" or "non-performing", if necessary. If this is the case, it provides the Legal Affairs and Litigation Office with all the information necessary to commence the procedures to recover the loan. The Risk Control Office manages the restructured loans as well and prepares a quarterly report for senior management on the status and developments of loans, especially doubtful ones.

Quantitative disclosure

A. Credit quality

A.1 Impaired and performing loans: carrying amount, impairment losses, performance, business and geographical breakdown

A.1.1 Breakdown of loans by portfolio and credit quality (carrying amount)

	Non-performing loans	Substandard loans	Restructured loans	Past due loans	Other assets	Total
1. Financial assets held for trading					188,167	**188,167**
2. Available-for-sale financial assets					112,406	**112,406**
3. Held-to-maturity investments					5,038	**5,038**
4. Due from banks					27,491	**27,491**
5. Loans to customers	25,131	34,514		2,523	995,574	**1,057,742**
6. Financial assets at fair value through profit or loss						**-**
7. Financial assets held for sale						**-**
8. Hedging derivatives						**-**
Total at 31/12/2011	**25,131**	**34,514**	**-**	**2,523**	**1,328,676**	**1,390,844**
Total at 31/12/2010	**18,672**	**39,351**	**-**	**3,118**	**1,274,233**	**1,335,374**

A.1.2 Breakdown of loans by portfolio and credit quality (gross amount and carrying amount)

	Impaired assets			Performing			Total (carrying amount)
	Gross amount	Individual impairment	Carrying amount	Gross amount	Collective impairment	Carrying amount	
1. Financial assets held for trading			-	188,167		188,167	188,167
2. Available-for-sale financial assets			-	112,406		112,406	112,406
3. Held-to-maturity investments			-	5,038		5,038	5,038
4. Due from banks			-	27,491		27,491	27,491
5. Loans to customers	85,897	23,729	62,168	1,005,405	9,831	995,574	1,057,742
6. Financial assets at fair value through profit or loss			-			-	-
7. Financial assets held for sale			-			-	-
8. Hedging derivatives			-			-	-
Total at 31/12/2011	**85,897**	**23,729**	**62,168**	**1,338,507**	**9,831**	**1,328,676**	**1,390,844**
Total at 31/12/2010	**82,750**	**21,610**	**61,140**	**1,284,334**	**10,100**	**1,274,234**	**1,335,374**

A.1.2.1 Breakdown of performing loans by portfolio (gross amount and carrying amount)

	Gross amount	Collective impairment	Carrying amount
1. Financial assets held for trading	188,167		188,167
2. Available-for-sale financial assets	112,406		112,406
3. Held-to-maturity investments	5,038		5,038
4. Due from banks	27,491		27,491
5. Loans to customers	983,078	9,508	973,570
6. Negotiated loans to customers as part of collective agreements	22,327	323	22,004
7. Financial assets at fair value through profit or loss			-
8. Financial assets held for sale			-
9. Hedging derivatives			-
Total at 31/12/2011	**1,338,507**	**9,831**	**1,328,676**

The above table shows performing loans that have been renegotiated as part of the collective ABI-MEF agreements provided for by Banca d'Italia communication no. 0169844/11 of 24 February 2011. The gross amount of € 22,004 thousand relates to the loans renegotiated pursuant to Law decree no. 185/2008.

A.1.2.2 Breakdown of performing loans by portfolio and due date

	Negotiated loans to customers as part of collective agreements					Other loans				
	Not yet due	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year	Not yet due	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	More than 1 year
1. Financial assets held for trading	-	-	-	-	-	188,167	-	-	-	-
2. Available-for-sale financial assets	-	-	-	-	-	112,406	-	-	-	-
3. Held-to-maturity investments	-	-	-	-	-	5,038	-	-	-	-
4. Due from banks	-	-	-	-	-	27,491	-	-	-	-
5. Loans to customers	-	-	-	-	-	970,860	-	2,059	648	3
6. Negotiated loans to customers as part of collective agreements	18,111	1,787	2,106	-	-	-	-	-	-	-
7. Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-
8. Financial assets held for sale	-	-	-	-	-	-	-	-	-	-
9. Hedging derivatives	-	-	-	-	-	-	-	-	-	-
Total at 31/12/2011	**18,111**	**1,787**	**2,106**	**-**	**-**	**1,303,962**	**-**	**2,059**	**648**	**3**

The table shows that outstanding receivables related to loans renegotiated as part of the collective ABI-MEF agreements are mostly included in the "Not yet due" category.

A.1.3 Due from banks on and off-statement of financial position: gross amounts and carrying amounts

	Gross amount	Individual impairment	Collective impairment	Net amount
A. ON STATEMENT OF FINANCIAL POSITION				
a) Non-performing loans				-
b) Substandard loans				-
c) Restructured loans				-
d) Past due loans				-
f) Other assets	129,894			129,894
TOTAL A	**129,894**	**-**	**-**	**129,894**
B. OFF STATEMENT OF FINANCIAL POSITION				
a) Impaired				-
b) Other	3,735			3,735
TOTAL B	**3,735**	**-**	**-**	**3,735**
TOTAL A + B	**133,629**	**-**	**-**	**133,629**

A.1.4 On-statement of financial position amounts due from banks: gross impaired positions

The bank has not undertaken this type of transaction.

A.1.5 On-statement of financial position amounts due from banks: changes in impaired positions

The bank has not undertaken this type of transaction.

A.1.6 Loans to customers on and off-statement of financial position: gross amounts and carrying amounts

	Gross amount	Individual impairment	Collective impairment	Net amount
A. ON STATEMENT OF FINANCIAL POSITION				
a) Non-performing loans	45,111	19,979	-	25,132
b) Substandard loans	38,150	3,636	-	34,514
c) Restructured loans				-
d) Past due loans	2,636	114		2,522
f) Other assets	1,207,192		9,831	1,197,361
TOTAL A	**1,293,089**	**23,729**	**9,831**	**1,259,529**
B. OFF STATEMENT OF FINANCIAL POSITION				
a) Impaired	341			341
b) Other	73,943			73,943
TOTAL B	**74,284**	**-**	**-**	**74,284**

Loans to customers include the balances of captions 20 and 40 (financial assets held for trading and available-for-sale) and 70 (loans to customers) less amounts due to banks consisting of securities included in table A.1.3.

A.1.7 On-statement of financial position loans to customers: gross impaired positions

	Non-performing loans	Substandard loans	Restructured loans	Past due loans
A. Gross opening balance	**36,354**	**43,124**	**-**	**3,269**
- including: positions transferred but not derecognised				
B. Increases	**15,180**	**33,733**	**-**	**26,105**
B.1 transfers from performing loans	60	22,005		25,702
B.2 transfers from other impaired loan categories	13,424	6,494		46
B.3 other increases	1,696	5,234		357
C. Decreases	**6,423**	**38,707**	**-**	**26,738**
C.1 transfer to performing loans	-	7,453		18,633
C.2 derecognitions	1,212			
C.3 collections	5,211	18,274		1,592
C.4 losses on sales				
C.5 transfers to other impaired loan categories		12,980		6,513
C.6 other decreases				-
D. Gross closing balance	**45,111**	**38,150**	**-**	**2,636**
- including: positions transferred but not derecognised				

The balance for point B2 of the table also includes transfers from loans overdue by more than 90 days.

A.1.8 On-statement of financial position loans to customers: changes in impaired positions

	Non-performing loans	Substandard loans	Restructured loans	Past due loans
A. Opening balance	**17,683**	**3,775**	**-**	**151**
- including: positions transferred but not derecognised				
B. Increases	**5,935**	**3,033**	**-**	**178**
B.1. impairment losses	4,325	2,882		129
B.2 transfers from other impaired loan categories	990			49
B.3 other increases	620	151		
C. Decreases	**3,639**	**3,173**	**-**	**215**
C.1. fair value losses	1,858	2,134		64
C.2. reversals of impairment losses due to collections	925			
C.3. derecognitions	856	-		
C.4. transfers to other impaired loan categories		1,039		
C.5 other decreases				151
D. Closing balance	**19,979**	**3,635**	**-**	**114**
- including: positions transferred but not derecognised				

A.2 Classification of exposures using external and internal ratings

A.2.1 Breakdown of credit exposure on and off-statement of financial position by external rating classes

Moody's provides the external ratings in accordance with the ECAI used to calculate the capital requirements for credit risk.

The externally-rated exposure with ordinary customers on and off-statement of financial position is negligible.

The exposure with institutional and banking counterparties has high ratings:

	External rating class						Unrated	Total
	AAA/AA-	A+/A-	BBB+/BBB	BB+/BB-	B+/B-	Below B		
A. On statement of financial position loans and receivables	**1,250**	**65,219**	**32,016**	**37**	**-**	**-**	**31,372**	**129,894**
B. Derivatives		**1,217**	**-**	**-**	**-**	**-**	**-**	**1,217**
B.1 Financial derivatives		1,217	-	-	-	-	-	1,217
B.2 Credit derivatives	-	-	-	-	-	-	-	-
C. Guarantees issued	**-**	**-**			**-**	**-**	**-**	**-**
D. Commitments to disburse funds		**-**	**-**	**-**	**-**	**-**	**2,518**	**2,518**
Total	**1,250**	**66,436**	**32,016**	**37**	**-**	**-**	**33,890**	**133,629**

A.2.2 Breakdown of credit exposure on and off-statement of financial position by internal rating classes

The bank has decided not to use internal rating systems.

A.3 Breakdown of guaranteed exposure by type of guarantee

A.3.2 Guaranteed loans to customers

	Net amount	Collateral (1)			Personal guarantees (2)									Total (1)+(2)
					Credit derivatives					Endorsement credits				
						Other derivatives								
		Property	Securities	Other collateral	CLN	Government and central banks	Other government agencies	Banks	Other	Government and central banks	Other government agencies	Banks	Other	
1. Guaranteed loans:	**794,487**	**1,408,897**	**20,217**	**7,417**	**-**	**-**	**-**	**-**	**-**	**-**	**3,110**	**-**	**237,564**	**1,677,205**
1.1.Fully guaranteed	762,427	1,406,842	17,732	6,556							3,110		220,620	1,654,860
- including: impaired	53,581	101,288	1,933	101									12,003	115,325
1.2. Partly guaranteed	32,060	2,055	2,485	861									16,944	22,345
- including: impaired	2,008	414	39	4									1,364	1,821
2. Off-statement of financial position guaranteed loans:	**40,908**	**22,573**	**2,591**	**2,193**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19,412**	**46,769**
2.1. Fully guaranteed	34,987	21,894	1,196	2,151									19,153	44,394
- including: impaired	328	42	39	5									243	329
2.2. Partly guaranteed	5,921	679	1,395	42									259	2,375
- including: impaired														

B. Breakdown and concentration of credit exposure

B.1 Breakdown of loans to customers on and off-statement of financial position by business segment (carrying amount)

	Governments			Other government agencies		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Non-performing loans						
A.2 Substandard loans						
A.3 Restructured loans						
A.4 Past due loans						
A.5 Other	202,996			3,897		
Total A	**202,996**	**-**	**-**	**3,897**	**-**	**-**
B. Off-statement of financial position						
B.1 Non-performing loans						
B.2 Substandard loans						
B.3 Other impaired assets						
B.4 Other				18,531		
Total B	**-**	**-**	**-**	**18,531**	**-**	**-**
Total at 31/12/2011	**202,996**	**-**	**-**	**22,428**	**-**	**-**
Total at 31/12/2010	**196,772**	**-**	**-**	**31,249**	**-**	

	Financial companies			Insurance companies		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Non-performing loans	4	58				
A.2 Substandard loans	45	6				
A.3 Restructured loans						
A.4 Past due loans	-	-				
A.5 Other	9,068			-		
Total A	**9,117**	**64**	**-**	**-**	**-**	**-**
B. Off-statement of financial position						
B.1 Non-performing loans	1					
B.2 Substandard loans	-					
B.3 Other impaired assets						
B.4 Other	1,364					
Total B	**1,365**	**-**	**-**	**-**	**-**	**-**
Total at 31/12/2011	**10,482**	**64**	**-**	**-**	**-**	**-**
Total at 31/12/2010	**4,402**	**41**	**24**	**-**	**-**	**-**

	Non-financial companies			Other		
	Net amount	Individual impairment	Collective impairment	Net amount	Individual impairment	Collective impairment
A. On-statement of financial position						
A.1 Non-performing loans	18,649	12,222		6,478	7,699	-
A.2 Substandard loans	24,077	2,935	-	10,392	695	
A.3 Restructured loans						
A.4 Past due loans	597	29		1,926	85	
A.5 Other	680,051		5,881	301,349		3,950
Total A	**723,374**	**15,186**	**5,881**	**320,145**	**8,479**	**3,950**
B. Off-statement of financial position						
B.1 Non-performing loans	12			-		
B.2 Substandard loans	328			-		
B.3 Other impaired assets	-			-		
B.4 Other	49,824			4,223		
Total B	**50,164**	**-**	**-**	**4,223**	**-**	**-**
Total at 31/12/2011	**773,538**	**15,186**	**5,881**	**324,368**	**8,479**	**3,950**
Total at 31/12/2010	**723,106**	**14,763**	**7,343**	**322,853**	**5,510**	**2,733**

Table "B.2 Breakdown of loans to resident non-financial companies" has been eliminated by Banca d'Italia communication no. 4855 of 2 January 2009.

Moreover, the credit concentration risk is analysed in the directors' report.

B.2 Breakdown of loans to customers on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing loans	25,131	19,980								
A.2 Substandard loans	34,514	3,636								
A.3 Restructured loans										
A.4 Past due loans	2,522	114								
A.5 Other	1,197,226	9,829	135	2	-		-		-	
Total A	**1,259,393**	**33,559**	**135**	**2**	**-**	**-**	**-**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing loans	13									
B.2 Substandard loans	328									
B.3 Other impaired assets	-									
B.4 Other	73,943								238	
Total B	**74,284**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**238**	**-**
Total at 31/12/2011	**1,333,677**	**33,559**	**135**	**2**	**-**	**-**	**-**	**-**	**238**	**-**
Total at 31/12/2010	**1,277,034**	**31,710**	**151**	**-**	**960**	**-**	**-**	**-**	**238**	

B.2.1 Breakdown of loans to customers on and off-statement of financial position by geographical segment (carrying amount)

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position								
A.1 Non-performing loans	2,968	1,668	27	59	21,575	17,373	561	879
A.2 Substandard loans	17	2	38	-	32,238	3,488	2,259	146
A.3 Restructured loans								
A.4 Past due loans		-	169	4	2,315	106	37	4
A.5 Other	12,520	28	1,308	15	1,121,258	9,172	62,140	615
Total A	**15,505**	**1,698**	**1,542**	**78**	**1,177,386**	**30,139**	**64,997**	**1,644**
B. Off-statement of financial position								
B.1 Non-performing loans	-				12			
B.2 Substandard loans	-				328			
B.3 Other impaired assets					-			
B.4 Other	10		496		70,263		3,173	
Total B	**10**	**-**	**496**	**-**	**70,603**	**-**	**3,173**	**-**
Total at 31/12/2011	**15,515**	**1,698**	**2,038**	**78**	**1,247,989**	**30,139**	**68,170**	**1,644**
Total at 31/12/2010	**8,957**	**1,739**	**1,092**	**41**	**1,212,011**	**28,802**	**54,973**	**863**

B.3 Breakdown of amounts due from banks on and off-statement of financial position by geographical segment (carrying amount)

	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position										
A.1 Non-performing loans										
A.2 Substandard loans										
A.3 Restructured loans										
A.4 Past due loans										
A.5 Other	128,467		91		1,257		80			
Total A	**128,467**	**-**	**91**	**-**	**1,257**	**-**	**80**	**-**	**-**	**-**
B. Off-statement of financial position										
B.1 Non-performing loans										
B.2 Substandard loans										
B.3 Other impaired assets										
B.4 Other	3,735		-							
Total B	**3,735**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total at 31/12/2011	**132,202**	**-**	**91**	**-**	**1,257**	**-**	**80**	**-**	**-**	**-**
Total at 31/12/2010	**144,747**	**-**	**127**	**-**	**2,525**	**-**	**16**	**-**	**3**	

B.3.1 Breakdown of amounts due from banks on and off-statement of financial position by geographical segment (carrying amount)

	North-west ITALY		North-east ITALY		Central ITALY		South ITALY and islands	
	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment	Net amount	Total impairment
A. On-statement of financial position								
A.1 Non-performing loans	-	-						
A.2 Substandard loans	-	-						
A.3 Restructured loans								
A.4 Past due loans	-	-						
A.5 Other	59,566	-	13,468		55,433			
Total A	**59,566**	**-**	**13,468**	**-**	**55,433**	**-**	**-**	**-**
B. Off-statement of financial position								
B.1 Non-performing loans	-	-						
B.2 Substandard loans	-							
B.3 Other impaired assets								
B.4 Other	1,215				2,520			
Total B	**1,215**	**-**	**-**	**-**	**2,520**	**-**	**-**	**-**
Total at 31/12/2011	**60,781**	**-**	**13,468**	**-**	**57,953**	**-**	**-**	**-**
Total at 31/12/2010	**79,822**	**-**	**18,830**	**-**	**46,095**	**-**	**-**	**-**

B.4 Large exposures (pursuant to supervisory regulations)

	31/12/2011	31/12/2010
a) Weighted amount	58,395	41,665
b) Nominal amount	337,259	307,391
c) Number	8	5
Total	**58,395**	**41,665**

As provided for by the sixth update of the Circular no. 263 of the "New prudential reporting instructions for banks" of 27 December 2010, which revised the prudential regulations for risk concentration, and with reference to communication no. 0206253/11 of 7 March 2011 issued by Banca d'Italia, the above table shows both the weighted value of the large exposures and their carrying amount. These positions have increased from five to eight, partly due to the new regulations.

C. Securitisations and transfers of assets

C.1 Securitisations

Qualitative disclosure

The bank has not undertaken this type of transaction.

Quantitative disclosure

The bank has not undertaken this type of transaction.

C.2 Transfers of assets

C.2.1 Financial assets transferred and not derecognised

	Financial assets held for trading			Financial assets at fair value through profit or loss			Available-for-sale financial assets			Total	
	A	B	C	A	B	C	A	B	C	31/12/2011	31/12/2010
A. Assets	**12,184**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,184**	**64,655**
1. Debt instruments	12,184									12,184	64,655
2. Equity instruments										-	-
3. OEIC units										-	-
4. Financing										-	-
B. Derivatives										**-**	**-**
Total at 31/12/2011	**12,184**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**12,184**	**64,655**
Total at 31/12/2010	**64,655**	**-**	**-**	**-**	**-**	**-**		**-**	**-**		**64,655**

	Held-to-maturity investments			Due to banks			Loans to customers			Total	
	A	B	C	A	B	C	A	B	C	31/12/2011	31/12/2010
A. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
1. Debt instruments										-	-
2. Equity instruments										-	-
3. OEIC units										-	-
4. Financing										-	-
B. Derivatives										-	-
Total at 31/12/2011										**-**	
Total at 31/12/2010											**-**

KEY:

A = transferred financial assets recognised in full (carrying amount)
B = transferred financial assets recognised in part (carrying amount)
C = transferred financial assets recognised in part (entire amount)

C.2.2 Financial liabilities for financial assets transferred but not derecognised

	Financial assets held for trading	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Due to banks	Loans to customers	Total
1. Due to customers	**12,197**	**0**	**0**	**0**	**0**	**0**	**12,197**
a) for fully recognised assets	12,197		0				12,197
b) for partly recognised assets							0
2. Due to banks		**0**	**0**	**0**	**0**	**0**	**0**
a) for fully recognised assets							0
b) for partly recognised assets							0
Total at 31/12/2011	**12,197**	**0**	**0**	**0**	**0**	**0**	**12,197**
Total at 31/12/2010	**65,553**	**0**	**0**	**0**	**0**	**0**	**65,553**

D. CREDIT RISK MEASUREMENT MODELS

SECTION 2 - MARKET RISK

2.1 Interest rate and price risks - supervisory trading book

Qualitative disclosure

A. General aspects

The securities portfolio was almost entirely comprised of securities issued by governments or banks at floating rates in 2011, like in 2010. Most of these were used in repurchase agreements with customers in order to minimise interest rate risks. The bank also pledged bank and government bonds from different portfolios as security with the ECB to obtain the required financing, pursuant to the Banca d'Italia instructions.

Other interest rate swaps decreased considerably in 2011 due to the derecognition of the fixed rate hedged liabilities recognised in the banking book while the remainder comprised specular contracts for corporate customers, hedged specifically with institutional counterparties.

In short, therefore, the bank's policy for trading on its own behalf consists of short-term repurchase transactions, monitoring the performance and risk profiles, in order to achieve returns on a portfolio mainly composed of floating rate securities.

As part of its ordinary trading activities, the bank undertook transactions directly for government bonds and bonds, mostly issued by banks. It also managed the organised trades system for its own bonds.

The bank solely traded in long-term interest rate derivatives using unlisted derivatives as interest rate options and swaps.

B. Management and measurement of interest rate and price risks

Internal control regulations establish that the trading book's exposure to risk is checked by the Risk Management Unit using the VaR method and the ALMPro application. The VaR measurement is based on a variance-covariance type parametric model with a confidence interval of 99% and a time frame of ten days. It has a reliability factor of 99% and measures the maximum loss that the book could incur in the ten days after the analysis date.

The calculation of the VaR of the banking book includes financial instruments, comprising shares, bonds and OICR units in Euros and foreign currencies of the HFT, AFS and HtM portfolios, excluding foreign currency swaps and futures and derivatives.

The objective is to constantly check the acceptability of the total risk and maintain its level within the internal regulations' limits by estimating the VaR component (VaRC) of each HFT, AFS and HtM portfolio.

In order to avoid taking on excessive risk and to ensure compliance with the established limits, the VaR monitoring is performed daily and the Risk Management Unit prepares a monthly summary of the daily results for the board of directors. At present, the VaR model is solely used for management and internal control purposes. In March 2010, a periodic backtesting procedure of the VaR DEaR (one-day) was introduced to check the calculation model's reliability.

With respect to price risk, the bank's operations in price risk sensitive financial instruments (equity instruments, OEIC units, derivatives on OEIC units, equity instruments, share indexes, precious metals, commodities and other assets) is minimal and has a completely negligible risk level.

Quantitative disclosure

1. Supervisory trading book: breakdown by residual maturity (repricing date) of on-statement of financial position financial assets and liabilities and derivatives

Currency: Euro

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**141,045**	**24,328**	**2,205**	**3,471**	**5,218**	**8,593**	**-**
1.1 Debt instruments	-	141,045	24,328	2,205	3,471	5,218	8,593	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	*141,045*	*24,328*	*2,205*	*3,471*	*5,218*	*8,593*	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**9,444**	**2,231**	**522**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	9,444	2,231	522	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**27,279**	**16,235**	**43,448**	**549,213**	**1,220,764**	**505,138**	**-**
3.1 With underlying security	-	**10,153**	**8,487**	**-**	153	-	704	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	*10,153*	*8,487*	-	*153*	-	*704*	-
+ long positions	-	*4,293*	*4,954*	-	*153*		*704*	-
+ short positions	-	*5,860*	*3,533*	-	-	-	-	-
3.2 Without underlying security	-	**17,126**	**7,748**	**43,448**	**549,060**	**1,220,764**	**504,434**	-
- Options	-	***299***	***4,117***	***40,587***	***545,665***	***1,220,384***	***504,386***	-
+ long positions		*149*	*2,069*	*20,279*	*272,808*	*610,202*	*252,211*	-
+ short positions		*150*	*2,048*	*20,308*	*272,857*	*610,182*	*252,175*	-
- Other derivatives	-	***16,827***	***3,631***	***2,861***	***3,395***	***380***	***48***	-
+ long positions	-	*8,481*	*1,841*	*1,429*	*1,704*	*190*	*24*	-
+ short positions	-	*8,346*	*1,790*	*1,432*	*1,691*	*190*	*24*	-

The amounts shown in point 3.2 "Financial derivatives without underlying security - Options" of the above table include data about the remaining term of the cap options, calculated as a series of forward rate agreement options equal in number of the options for which the bank receives (pays) the fixed rate and pays (receives) the fair value of the indexed reference rate. These options are implicitly included in the loans granted to customers and are tied to the variability of interest rates.

Currency: US dollar (USD)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**11,511**	**2,190**	**2,484**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	**-**	**-**	**-**	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	**11,511**	**2,190**	**2,484**	**-**	**-**	**-**	-
- Options	-	**-**	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	***11,511***	***2,190***	***2,484***	**-**	**-**	**-**	-
+ long positions	-	*5,688*	*1,069*	*1,242*	-	-	-	-
+ short positions	-	*5,823*	*1,121*	*1,242*	-	-	-	-

Currency: Pound sterling (GBP)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**324**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	**-**	**-**	**-**	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	**-**	**324**	**-**	**-**	**-**	**-**	-
- Options	-	**-**	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	**-**	***324***	**-**	**-**	**-**	**-**	-
+ long positions	-		*162*	-	-	-	-	-
+ short positions	-		*162*	-	-	-	-	-

Currency: Swiss franc (CHF)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**132**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	**-**	**-**	**-**	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	**132**	**-**	**-**	**-**	**-**	**-**	-
- Options	-	**-**	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	***132***	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	*82*	-	-	-	-	-	-
+ short positions	-	*50*	-	-	-	-	-	-

Currency: Japanese Yen (JPY)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**204**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	**-**	**-**	**-**	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	**204**	**-**	**-**	**-**	**-**	**-**	-
- Options	-	**-**	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	***204***	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	*104*	-	-	-	-	-	-
+ short positions	-	*100*	-	-	-	-	-	-

Currency: Canadian dollar (CAD)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**252**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	**-**	**-**	**-**	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	**252**	**-**	**-**	**-**	**-**	**-**	-
- Options	-	**-**	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	***252***	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	*113*	-	-	-	-	-	-
+ short positions	-	*139*	-	-	-	-	-	-

Currency: other

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Other assets	-	-	-	-	-	-	-	-
2. Liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Reverse repurchase agreements	-	-	-	-	-	-	-	-
2.2 Other liabilities	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**906**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	**-**	**-**	**-**	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	**906**	**-**	**-**	**-**	**-**	**-**	-
- Options	-	**-**	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	***906***	**-**	**-**	**-**	**-**	**-**	-
+ long positions	-	*444*	-	-	-	-	-	-
+ short positions	-	*462*	-	-	-	-	-	-

2. Supervisory trading book: breakdown of exposure in equity instruments and share indexes by main stock exchange

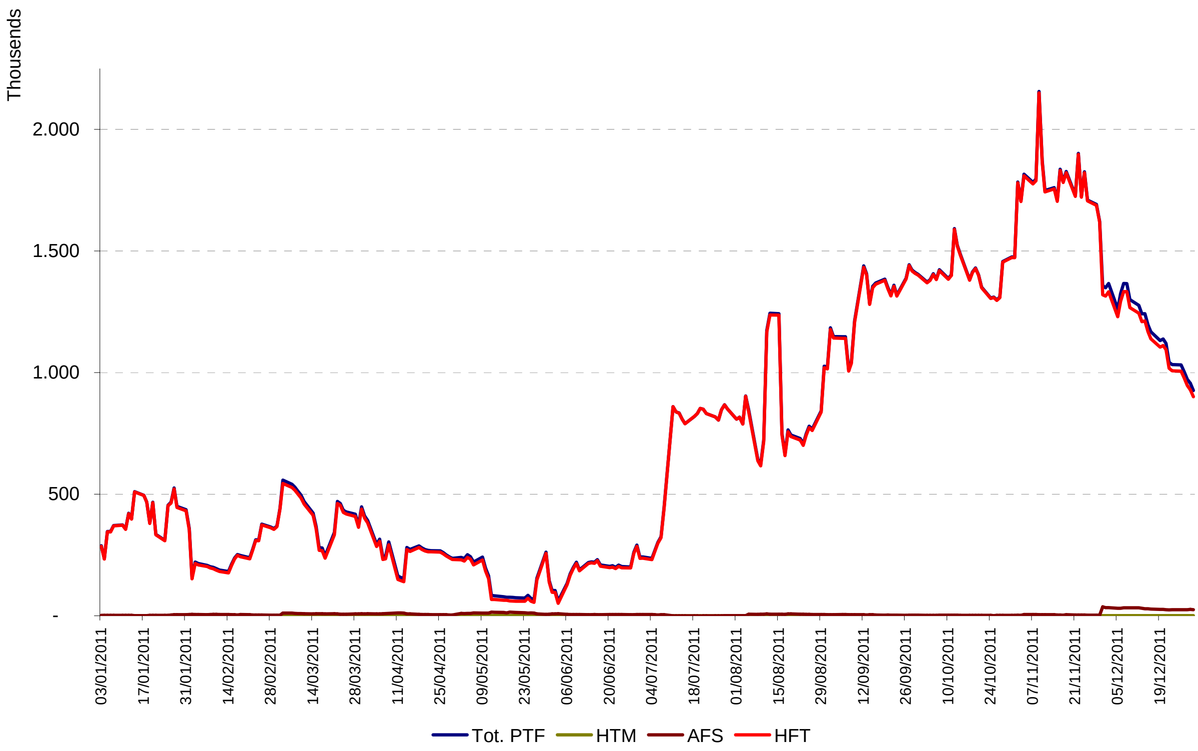
	Listed			Unlisted
	ITALY	Country 2	Country 3	
A. Equity instruments	**1**	**-**	**-**	**-**
- long positions	1	-	-	-
- short positions		-	-	-
B. Unsettled transactions involving equity instruments		**-**	**-**	**-**
- long positions	-		-	-
- short positions				
C. Other derivatives on equity instruments	**-**	**-**	**-**	**-**
- long positions	-	-	-	-
- short positions	-	-	-	-
D. Derivative on share indexes	**-**	**-**	**-**	**-**
- long positions	-	-	-	-
- short positions	-	-	-	-

3. Supervisory trading book: internal models and other methodologies used to analyse sensitivity

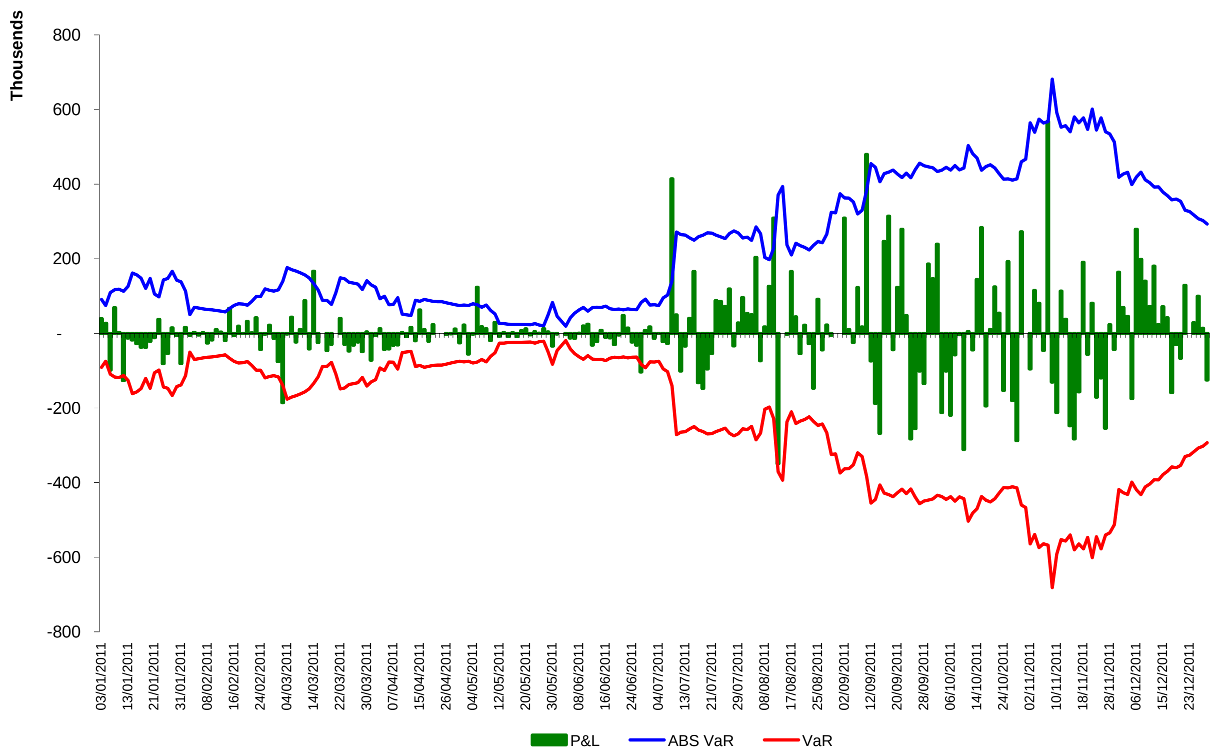
The following table shows the information provided by the VaR calculation model about the shares and bonds in the trading book while the graph shows the 10-day VaR trend from 1 January to 31 December 2011.

From 1 January 2011 to 31 December 2011	VaR HFT (in Euros)
Minimum	51,025
Maximum	2,150,293
Average	731,241
Period end	900,620

10-day VaR, 99% confidence interval



Backtesting on 1-day VaR, 99% confidence interval



2.2 Interest rate and price risk - banking book

Qualitative disclosure

A. General aspects, management and measurement of interest rate and price risks

The banking book includes all financial assets and liabilities not included in the trading book.

The Risk Management Unit measures the banking book's interest rate risk using the ALMpro tool, applying the methodology required by the prudential supervisory instructions (Pillar II, annex C to Banca d'Italia Circular no. 263/2006, chapter III, section 1).

The model provides for a breakdown of the assets and liabilities by maturity or interest rate review date and considers annual changes in daily interest rates recorded over an observation period of six years to determine internal capital in ordinary conditions, considering 1% (downward) and 99% (upward) trend.

In stress conditions, the model assumes a 200 bp change in the interest rates and quantifies the change in the total economic value of the instruments included in the banking book, on which the supervisory test is performed compared to the regulatory capital.

In order to ensure the proper monitoring of the banking book's interest rate risk, it is measured every month while monthly reports are prepared for the managing director and the board of directors.

For management purposes, the banking book's interest rate risk is analysed for sensitivity using the ALMPro tool, simulating the change in the interest income should interest rates increase or decrease by 100 bp.

Price risk is negligible for the banking book.

B. Fair value hedges

The bank has not agreed fair value hedges.

C. Cash flow hedges

The bank has not agreed cash flow hedges.

D. Hedges of investments in foreign operations

No such transactions have taken place.

Quantitative disclosure

1. Banking book: breakdown by residual maturity (by repricing date) of financial assets and liabilities

Currency: Euro

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**429,790**	**512,221**	**44,497**	**35,803**	**118,523**	**39,959**	**16,101**	**-**
1.1 Debt instruments	724	66,565	26,879	4,700	18,576	-	-	-
- with early repayment option								
- other	*724*	*66,565*	*26,879*	*4,700*	*18,576*			
1.2 Financing to banks	12,101	14,393						
1.3 Financing to customers	**416,965**	**431,263**	**17,618**	**31,103**	**99,947**	**39,959**	**16,101**	**-**
- current account	*270,847*	*232*	*95*	*4,573*	*2,572*	*902*		
- other financing	*146,118*	*431,031*	*17,523*	*26,530*	*97,375*	*39,057*	*16,101*	*-*
- with early repayment option	*47,640*	*396,410*	*11,988*	*19,191*	*81,524*	*37,192*	*16,101*	
- other	*98,478*	*34,621*	*5,535*	*7,339*	*15,851*	*1,866*		
2. Liabilities	**830,267**	**155,153**	**31,394**	**48,809**	**188,590**	**-**	**-**	**-**
2.1 Due to customers	820,934	9,125	9,559	-	-	-	-	-
- current account	*705,238*	*-*						
- other payables	*115,696*	*9,125*	*9,559*	*-*	*-*	*-*	*-*	
- with early repayment option	*-*	*-*	*-*	*-*				
- other	*115,696*	*9,125*	*9,559*		*-*	*-*	*-*	*-*
2.2 Due to banks	4,050	75,000	-	-	30,000	-	-	-
- current account	*4,050*	*-*	*-*	*-*				
- other payables		*75,000*	*-*		*30,000*			
2.3 Debt instruments	5,283	71,028	21,835	48,809	158,590	-	-	-
- with early repayment option	*78*	*-*	*-*		*13,403*			
- other	*5,205*	*71,028*	*21,835*	*48,809*	*145,187*			
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option								
- other								
3. Financial derivatives	**-**	**61,944**	**22,496**	**5,763**	**48,950**	**25,745**	**14,926**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions								
+ short positions								
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions								
+ short positions								
3.2 Without underlying security	-	**61,944**	22,496	5,763	48,950	25,745	14,926	-
- Options	-	***61,934***	*22,496*	*5,763*	*48,950*	*25,745*	*14,926*	-
+ long positions		*3,231*	*3,248*	*4,918*	*47,469*	*21,502*	*9,538*	
+ short positions		*58,703*	*19,248*	*845*	*1,481*	*4,243*	*5,388*	
- Other derivatives	-	***10***	-	-	-	-	-	-
+ long positions		*5*	-	-	-			
+ short positions		*5*	-					

Currency: US dollar (USD)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**3,203**	**1,364**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	296	-	-	-	-	-	-	-
1.3 Financing to customers	**2,907**	**1,364**	**-**	**-**	**-**	**-**	**-**	**-**
- current account	*280*	-	-	-	-	-	-	-
- other financing	*2,627*	*1,364*	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*2,627*	*1,364*	-	-	-	-	-	-
2. Liabilities	**2,521**	**1,932**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	2,519	-	-	-	-	-	-	-
- current account	*2,519*	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	2	1,932	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	*2*	*1,932*	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**538**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	**538**	-	-	-	-	-	-
- Options	-	**-**	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	***538***	-	-	-	-	-	-
+ long positions	-	*269*	-	-	-	-	-	-
+ short positions	-	*269*	-	-	-	-	-	-

Currency: Pound sterling (GBP)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**198**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	198	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities	**250**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	250	-	-	-	-	-	-	-
- current account	*250*	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

Currency: Swiss franc (CHF)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**287**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	287	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities	**341**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	341	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	*341*	-	-	-	-	-	-	
- with early repayment option	-	-	-	-	-	-	-	-
- other	-		-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

Currency: Japanese Yen (JPY)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**264**	**42**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	80	-	-	-	-	-	-	-
1.3 Financing to customers	**184**	**42**	**-**	**-**	**-**	**-**	**-**	**-**
- current account	-	-	-	-	-	-	-	-
- other financing	*184*	*42*	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	*184*	*42*	-	-	-	-	-	-
2. Liabilities	**-**	**269**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	269	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	*269*	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

Currency: Canadian dollar (CAD)

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**24**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	24	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	1	-	-	-	-	-	-	-
- current account	*1*	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

Currency: other

	On demand	Up to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	From 5 to 10 years	After 10 years	Open term
1. Assets	**112**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
1.1 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
1.2 Financing to banks	112	-	-	-	-	-	-	-
1.3 Financing to customers	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other financing	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2. Liabilities	**5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2.1 Due to customers	5	-	-	-	-	-	-	-
- current account	*5*	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.2 Due to banks	-	-	-	-	-	-	-	-
- current account	-	-	-	-	-	-	-	-
- other payables	-	-	-	-	-	-	-	-
2.3 Debt instruments	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
2.4 Other liabilities	-	-	-	-	-	-	-	-
- with early repayment option	-	-	-	-	-	-	-	-
- other	-	-	-	-	-	-	-	-
3. Financial derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
3.1 With underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
3.2 Without underlying security	-	-	-	-	-	-	-	-
- Options	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-
- Other derivatives	-	-	-	-	-	-	-	-
+ long positions	-	-	-	-	-	-	-	-
+ short positions	-	-	-	-	-	-	-	-

2. Banking book: internal models and other methodologies for sensitivity analyses

The impact on interest income of a 1% increase or decrease in interest rates is calculated using the ALMPro tool for management purposes only, assuming that the maturity dates do not change for a year.

Impact on Net
Gapping period : 12 months
Data cut-off: 30/12/2011
Amounts in euro

NET FORECAST INTEREST INCOME	41.763.943

Modello	Shock: +1%				Shock: -1%			
	On Statement		Off Stetement of Financial Position	Totals	On Statement		Off Stetement of Financial Position	Totals
	Demand	Maturity			Demand	Maturity		
a - Incremental Gap	-5.024.673	4.831.727	-13,7	-192.960	1.903.214	-4.996.650	14	-3.093.422
(% del margine atteso)	-12,0%	11,6%	0,0%	-0,5%	4,6%	-12,0%	0,0%	-7,4%
b - Incremental Beta Gap	-771.737	4.831.727	-13,7	4.059.976	-683.092	-4.996.650	14	-5.679.728
(% del margine atteso)	-1,8%	11,6%	0,0%	9,7%	-1,6%	-12,0%	0,0%	-13,6%
c - Shifted Beta Gap	-250.044	4.831.727	-13,7	4.581.670	-798.789	-4.996.650	14	-5.795.425
(% del margine atteso)	-0,6%	11,6%	0,0%	11,0%	-1,9%	-12,0%	0,0%	-13,9%
Beta Effect (b-a)	4.252.936			4.252.936	-2.586.306			-2.586.306
Sticky Effct (c-b)	521.694			521.694	-115.697			-115.697

The **- a -** model is based on the assumption of a perfect match between the bank rates and market rates. The **- b -** model considers various gaps between the bank product and market rates, while the **- c -** model includes the sticky factor of on-demand items.

2.3 Currency risk

Qualitative disclosure

A. General aspects, management and measurement of currency risk

Currency risk is the risk that the bank may incur losses due to adverse changes in foreign exchange rates affecting its positions.

The bank's foreign currency activities solely comprise spot and repurchase agreements for customers, which are concurrently matched on the market by agreeing very short term, short/long positions that give rise to immaterial price risk.

Internal models to calculate the capital requirements for market risk are not used.

B. Currency hedges

The bank does not agree specific currency hedges.

Quantitative disclosure

1. Breakdown of assets, liabilities and derivatives by currency

	Currency					
	US dollar	Pound sterling	Yen	Canadian dollar	Swiss franc	Other currencies
A. Financial assets	**4,567**	**198**	**306**	**24**	**287**	**112**
A.1 Debt instruments		-	-	-	-	-
A.2 Equity instruments		-	-	-	-	-
A.3 Financing to banks	296	198	80	24	287	112
A.4 Financing to customers	4,271	-	226	-	-	-
A.5 Other financial assets	-	-	-	-	-	-
B. Other assets	**102**	**41**	**1**	**1**	**35**	**21**
C. Financial liabilities	**4,453**	**250**	**312**	**1**	**342**	**5**
C.1 Due to banks	1,934	-	270	-	-	-
C.2 Due to customers	2,519	250	42	1	342	5
C.3 Debt instruments	-	-	-	-	-	-
C.4 Other financial liabilities	-	-	-	-	-	-
D. Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**
E. Financial derivatives	**16,185**	**324**	**204**	**253**	**132**	**906**
- Options	-	-	-	-	-	-
+ *long positions*	-	-	-	-	-	-
+ *short positions*	-	-	-	-	-	-
- Other derivatives	**16,185**	**324**	**204**	**253**	**132**	906
+ *long positions*	*7,999*	*162*	*104*	*114*	*82*	*444*
+ *short positions*	*8,186*	*162*	*100*	*139*	*50*	*462*
Total assets	**12,668**	**401**	**411**	**139**	**404**	**577**
Total liabilities	**12,639**	**412**	**412**	**140**	**392**	**467**
Difference (+/-)	**29**	**- 11**	**- 1**	**- 1**	**12**	**110**

Given this risk's immateriality, the bank does not currently assess the effect of changes in exchange rates on total income, the profit or loss for the year and equity, nor does it perform scenario analyses.

2. Internal models and other methodologies for sensitivity analyses

The bank does not use internal models to measure currency risk or other methodologies for sensitivity analyses.

2.4 Derivatives

A. Financial derivatives

The banking book is not subject to price risk.

A.1 Supervisory trading book: notional amounts at the reporting date and average amounts

	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
1. Debt instruments and interest rates	**69,549**	**-**	**81,730**	**-**
a) Options	64,980		66,482	
b) IRS	4,569		6,956	
c) Forwards			8,292	
d) Futures				
e) Other				
2. Equity instruments and share indexes	**-**	**-**	**-**	**-**
a) Options				
b) Swaps	-		-	-
c) Forwards				
d) Futures				
e) Other				-
3. Currencies and gold	**16,539**	**-**	**16,814**	**-**
a) Options				
b) Swaps				-
c) Forwards	*16,539*		*16,814*	
d) Futures				
e) Other				-
4. Commodities	**-**	**-**	**-**	**-**
5. Other underlying assets	**-**	**-**	**-**	**-**
Total	**86,088**	**-**	**98,544**	**-**
Average amounts	**85,427**		**84,124**	**-**

A.3 Financial derivatives: gross fair value gains - breakdown by product

	Positive fair value			
	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	**1,420**	**-**	**1,566**	**-**
a) Options	714		1,106	
b) Interest rate swaps	174		222	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	532		238	
d) Futures				
e) Other				
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options				
b) Interest rate swaps	-		-	-
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
d) Futures				
e) Other	-		-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options				
b) Interest rate swaps	-		-	-
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
d) Futures				
e) Other	-	-	-	-
Total	**1,420**	**-**	**1,566**	**-**

A.4 Financial derivatives: gross fair value losses - breakdown by product

	Negative fair value			
	31/12/2011		31/12/2010	
	Over the counter	Central counterparties	Over the counter	Central counterparties
A. Supervisory trading book	**1,425**	**-**	**1,513**	**-**
a) Options	718		1,108	
b) Interest rate swaps	170		170	
c) Cross currency swaps				
d) Equity swaps				
e) Forwards	537		235	
d) Futures				
e) Other				
B. Banking book - hedging	**-**	**-**	**-**	**-**
a) Options				
b) Interest rate swaps	-		-	-
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
d) Futures				
e) Other	-		-	-
C. Banking book - other derivatives	**-**	**-**	**-**	**-**
a) Options				
b) Interest rate swaps	-		-	-
c) Cross currency swaps				
d) Equity swaps				
e) Forwards				
d) Futures				
e) Other	-	-	-	-
Total	**1,425**	**-**	**1,513**	**-**

A.5 OTC financial derivatives - supervisory trading book: notional amounts, gross positive and negative fair value by counterparty - contracts not included in netting agreements

	Government and central banks	Other government agencies	Banks	Financial companies	Insurance companies	Non-financial companies	Other
1. Debt instruments and interest rates	**-**	**-**	**35,936**	**164**	**-**	**19,334**	**16,351**
- notional amount			34,606	161		18,894	15,888
- positive fair value			704			137	47
- negative fair value			180	3		292	412
- future exposure			446			11	4
2. Equity instruments and share indexes	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							
3. Currencies and gold	**-**	**-**	**8,758**	**-**	**-**	**8,469**	**545**
- notional amount			8,148			7,859	532
- positive fair value			513			17	2
- negative fair value			16			514	6
- future exposure			81			79	5
4. Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- notional amount							
- positive fair value							
- negative fair value							
- future exposure							

A.9 Residual maturity of OTC financial derivatives: notional amounts

	Up to 1 year	From 1 to 5 years	After 5 years	Total
A. Supervisory trading book	**18,017**	**11,937**	**56,134**	**86,088**
A.1 Financial derivatives on debt instruments and interest rates	1,478	11,937	56,134	69,549
A.2 Financial derivatives on equity instruments and share indexes				-
A.3 Financial derivatives on exhange rates and gold	16,539			16,539
A.4 Financial derivatives on other assets				-
B. Banking book	**-**	**-**	**-**	**-**
A.1 Financial derivatives on debt instruments and interest rates	-	-		-
A.2 Financial derivatives on equity instruments and share indexes				-
A.3 Financial derivatives on exhange rates and gold				-
A.4 Financial derivatives on other assets				-
Total at 31/12/2011	**18,017**	**11,937**	**56,134**	**86,088**
Total at 31/12/2010	**20,937**	**12,859**	**56,456**	**90,252**

B. Credit derivatives

The bank has not agreed credit derivatives.

SECTION 3 - LIQUIDITY RISK

Qualitative disclosure

A. General aspects, management and measurement of liquidity risk

The bank’s liquidity risk management strategy is based on ensuring a steady flow of liquidity, as required by the supervisory regulations, and its prudent and careful management policies.

The Finance Unit Head is in charge of managing liquidity, including by investing any surplus on the interbank deposit market. The Risk Management Unit regularly monitors the liquidity conditions and reports to the general manager.

On 25 January 2011, the board of directors approved the "Liquidity risk governance and management policy", which also includes an emergency plan for any liquidity crises.

The degree of structural liquidity and the ordinary customers’ lending/funding ratio is checked every three months along with compliance with the specific limits set by internal regulations.

The bank has used Prometeia’s ALMPro application for liquidity risk, which partly updates the assessment model, since 31 December 2008. This model is based on differentiated weighing ratios depending on the type of asset, liability and commitment and classifies assets and liabilities considering their liquidability characteristics for each residual maturity category. Any differences and certain synthetic indexes are used to assess the structural liquidity situation over the entire time frame.

In order to ensure the proper monitoring of liquidity risk, the Risk Management Unit assesses such risk and prepares monthly reports.

Quantitative disclosure

At the reporting date, the structural liquidity analysis models show the substantial financial balance within the limits set by the internal regulations:

in Euros

Time bracket	Asset/availability	Liability/ commitment	Difference	Total difference
Highly liquid assets	169,491,815			
At sight or revocation	8,261,509	160,956,963	16,796,361	16,796,361
Up to 1 month	83,455,958	108,472,088	-25,016,130	-8,219,769
From 1 to 3 months	67,336,060	47,360,006	19,976,054	11,756,285
From 3 to 6 months	39,855,905	26,295,238	13,560,667	25,316,952
From 6 to 12 months	47,969,263	50,841,000	-2,871,737	22,445,215
From 1 to 2 years	76,161,727	95,739,500	-19,577,773	2,867,442
From 2 to 3 years	74,782,375	52,300,500	22,481,875	25,349,317
From 3 to 4 years	53,387,079	36,201,000	17,186,079	42,535,396
From 4 to 5 years	43,442,383	38,448,000	4,994,383	47,529,779
From 5 to 7 years	71,199,450	-	71,199,450	118,729,229
From 7 to 10 years	86,304,083	-	86,304,083	205,033,312
From 10 to 15 years	82,518,925	-	82,518,925	287,552,237
From 15 to 20 years	18,095,105	-	18,095,105	305,647,342
After 20 years	8,391,414	-	8,391,414	314,038,756
TOTAL	**930,653,051**	**616,614,295**	**314,038,756**	

Activities on the interbank deposit market are undertaken to invest surplus liquidity in short-term products so as to ensure fast liquidability.

1. Breakdown of financial assets and liabilities by residual contractual maturity - Currency: Euro

Currency: Euro

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
On-statement of financial position assets	**391,266**	**2,036**	**7,312**	**18,831**	**47,451**	**67,505**	**77,035**	**490,080**	**342,723**	**14,393**
A.1 Government bonds		-	-	37	27	137	2,112	156,531	51,170	-
A.2 Other debt instruments		-	-	3,941	1,489	19,720	4,939	60,670	21,571	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	391,266	2,036	7,312	14,853	45,935	47,648	69,984	272,879	269,982	14,393
- Banks	*12,102*	-	-	-		-	-	-	-	*14,393*
- Customers	*379,164*	*2,036*	*7,312*	*14,853*	*45,935*	*47,648*	*69,984*	*272,879*	*269,982*	
On-statement of financial position	**824,943**	**41,005**	**2,239**	**45,672**	**53,075**	**28,477**	**49,341**	**216,344**	**-**	**-**
B.1 Deposits and current accounts	823,407	467	531	1,878	6,249	9,559	10	-	-	-
- Banks	*4,050*								-	-
- Customers	*819,357*	*467*	*531*	*1,878*	*6,249*	*9,559*	*10*	-	-	-
B.2 Debt instruments	1,536	538	1,708	8,021	38,155	16,687	48,809	186,344	-	-
B.3 Other liabilities		40,000		35,773	8,671	2,231	522	30,000		-
Off-statement of financial position	**57,606**	**13,991**	**242**	**6,984**	**1,912**	**10,986**	**2,679**	**207**	**21,303**	**250**
C.1 Financial derivatives with exchange of principal	-	13,981	242	6,984	1,912	10,986	2,484	207	1,408	-
- Long positions	-	*6,202*	*138*	*3,511*	*977*	*6,222*	*1,242*	*207*	*704*	-
- Short positions	-	*7,779*	*104*	*3,473*	*935*	*4,764*	*1,242*		*704*	
C.2 Financial derivatives without exchange of principal	**1,778**	-	-	-	-	-	-	-	-	-
- Long positions	*889*	-	-	-	-	-	-	-	-	-
- Short positions	*889*	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	**55,816**	**10**	**-**	**-**	**-**	**-**	**195**	**-**	**19,895**	**250**
- Long positions	*17,864*	*5*	-	-	-	-	*195*	-	*19,894*	*125*
- Short positions	*37,952*	*5*	-	-	-	-	-	-	*1*	*125*
C.5 Financial guarantees issued	12	-	-	-	-	-	-	-	-	-

At the reporting date, the bank had received guarantees of € 27,648 thousand which are not shown in the above table as there is no evidence to reasonably suggest that they will be enforced or when they will be used. Guarantees enforced in the last four years are as follows:
2007: 3 positions for a total of € 46 thousand;
2008: 3 positions for a total of € 231 thousand;
2009: none;
2010: none;
2011: 1 for a total of € 25 thousand.

Currency: US dollar (USD)

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
On-statement of financial position assets	**656**	**205**	**410**	**750**	**2,123**	**431**	**-**	**-**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	656	205	410	750	2,123	431	-	-	-	-
- Banks	*296*	-	-	-	-	-	-	-	-	-
- Customers	*360*	*205*	*410*	*750*	*2,123*	*431*	-	-	-	-
On-statement of financial position	**2,519**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	2,519	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	*2,519*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**-**	**3,115**	**39**	**6,984**	**1,912**	**2,190**	**2,484**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of	-	2,577	39	6,984	1,912	2,190	2,484	-	-	-
- Long positions	-	*1,280*		*3,473*	*935*	*1,069*	*1,242*	-	-	-
- Short positions	-	*1,297*	*39*	*3,511*	*977*	*1,121*	*1,242*	-	-	-
C.2 Financial derivatives without exchange of	**-**	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	**-**	**538**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	*269*	-	-	-	-	-	-	-	-
- Short positions	-	*269*	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: Pound sterling (GBP)

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
On-statement of financial position assets	**198**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	198	-	-	-	-	-	-	-	-	-
- Banks	*198*	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-statement of financial position	**250**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	250	-	-	-	-	-	-	-	-	-
- Banks		-	-	-	-	-	-	-	-	-
- Customers	*250*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**-**	**-**	**-**	**-**	**-**	**324**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	324	-	-	-	-
- Long positions	-	-	-	-		*162*	-	-	-	-
- Short positions	-	-	-	-		*162*	-	-	-	-
C.2 Financial derivatives without exchange of principal	**-**	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: Swiss franc (CHF)

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
On-statement of financial position assets	**287**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	287	-	-	-	-	-	-	-	-	-
- Banks	*287*	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-statement of financial position	**342**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	342	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-		-	-	-	-	-
- Customers	*342*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**-**	**132**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	132	-	-	-	-	-	-	-	-
- Long positions	-	*82*	-	-	-	-	-	-	-	-
- Short positions	-	*50*	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: Japanese Yen (JPY)

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
On-statement of financial position assets	**154**	**-**	**-**	**-**	**110**	**-**	**-**	**-**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	154	-	-	-	110	-	-	-	-	-
- Banks	*80*	-	-	-			-	-	-	-
- Customers	*74*		-	-	*110*	-	-	-	-	-
On-statement of financial position	**42**	**-**	**-**	**70**	**200**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	42	-	-	70	200	-	-	-	-	-
- Banks	-	-	-	*70*	*200*	-	-	-	-	-
- Customers	*42*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**-**	**-**	**204**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	204	-	-	-	-	-	-	-
- Long positions	-		*104*		-	-	-	-	-	-
- Short positions	-		*100*		-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: Canadian dollar (CAD)

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
On-statement of financial position assets	**24**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	24	-	-	-	-	-	-	-	-	-
- Banks	*24*	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-statement of financial position	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	1	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	*1*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

Currency: other

	On demand	From 1 to 7 days	From 7 to 15 days	From 15 days to 1 month	From 1 to 2 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	After 5 years	Open term
On-statement of financial position assets	**24**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Government bonds	-	-	-	-	-	-	-	-	-	-
A.2 Other debt instruments	-	-	-	-	-	-	-	-	-	-
A.3 OEIC units	-	-	-	-	-	-	-	-	-	-
A.4 Financing	24	-	-	-	-	-	-	-	-	-
- Banks	*24*	-	-	-	-	-	-	-	-	-
- Customers	-	-	-	-	-	-	-	-	-	-
On-statement of financial position	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
B.1 Deposits and current accounts	1	-	-	-	-	-	-	-	-	-
- Banks	-	-	-	-	-	-	-	-	-	-
- Customers	*1*	-	-	-	-	-	-	-	-	-
B.2 Debt instruments	-	-	-	-	-	-	-	-	-	-
B.3 Other liabilities	-	-	-	-	-	-	-	-	-	-
Off-statement of financial position	**-**	**253**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Financial derivatives with exchange of principal	-	253	-	-	-	-	-	-	-	-
- Long positions	-	*114*	-	-	-	-	-	-	-	-
- Short positions	-	*139*	-	-	-	-	-	-	-	-
C.2 Financial derivatives without exchange of principal	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.3 Deposits and financing to be received	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.4 Irrevocable commitments to disburse funds	-	-	-	-	-	-	-	-	-	-
- Long positions	-	-	-	-	-	-	-	-	-	-
- Short positions	-	-	-	-	-	-	-	-	-	-
C.5 Financial guarantees issued	-	-	-	-	-	-	-	-	-	-

SECTION 4 - OPERATIONAL RISKS

Qualitative disclosure

A. General aspects, management and measurement of operational risk

As per the regulatory definition (Banca d'Italia Circular no. 263/06), operational risk is the risk of losses arising from errors or shortfalls in internal procedures, due to both human/technological resources and external factors.

In order to ensure efficient, effective and ongoing internal procedures, general management and its subordinates, as the organisational units, are responsible for identifying, measuring and mitigating any operational risks. The bank has regulations in place for key operating procedures formalising the operating stages and activities and establishing the line controls.

Mapping of the bank procedures started in 2007, was continued successfully and completed with the operational procedures for relationships with customers, excluding the finance area transactions.

With respect to the operational risk mitigation tools, the bank focused on the transfer of risk through the agreement of insurance policies, suitable for low frequency events with a high financial impact. These policies cover risks of losses from:

- fraud or misconduct;
- damage to third parties caused by errors made during banking operations;
- non-intentional violations of legal, regulatory and by-laws obligations by directors and specific employees;
- third-party fraud;
- damage to property and equipment as a result of natural or criminal events;
- accidents and slight or serious injuries to third parties inside the bank's premises.

Legal risks

Situations that led to legal risks mainly relate to operations covered by the main special regulations such as, specifically, entities' administrative liability (Legislative decree no. 231/2001), occupational safety (Legislative decree no. 81/2008), building site regulations (Legislative decree no. 494/96), privacy (Legislative decree no. 196/2003), banking transparency, usury, anti-money laundering and investment services.

With respect to Legislative decree no. 231/01, the bank uses the organisational models of the ABI, approved by the Ministry for Justice, and has set up a supervisory body to ensure the working and compliance with the models.

The Compliance Unit is responsible for monitoring legal risks and the bank's compliance with external and internal rules and regulations. it also checks new products/services' compliance in order to identify any potential risks in advance and make the necessary amendments.

Following the release of Banca d'Italia's Measure of 10 March 2011 about "Instructions for the prevention of the use of brokers and other parties that carry out financial activities aimed at money reclcying and terrorist financing with respect through organisation, procedures and internal controls, pursuant to article 7.2 of Legislative decree no. 231 of 21 November 2007", the board of directors approved a resolution on 3 August 2011, which:

1. formalised the bank's policy about money recycling and:

- setting out the strategies and risk management policies and the risk based approach suitable for the size and type of risks encountered by the bank;
- allocating duties and responsibilities with a clear segregation of duties between operating and control functions;
- defining the adequacy, completeness and timeliness criteria of the information flows to the internal bodies;
- establishing an organised and coordinated internal control structure, which can manage recycling risks;
- setting the standards and dates for preparing reports on their activities by the officer in charge of anti money recycling issues;

2. setting up an Anti-recycling Unit;
3. appointing a manager to head the Anti-recycling Unit (Anti-recycling Manager).

The main legal disputes are described below.

Compound interest disputes

In line with the banking sector's general practice, the bank does not agree with the decision reiterated by the Supreme Court since 1999 which confirm the "negotiating" rather than the "regulatory" nature of the quarterly capitalisation clause for interest expense and, therefore, the illegality of its application to bank current accounts. The bank maintains its opinion in court as well.

The banks' position is supported by numerous merits rulings which emphasise different legal points, which are valid, and that may lead the Supreme Court to rethink its position in the future.

At present, the bank is obliged to make adequate provision for its ongoing disputes with customers about compound interest, based on the calculations made when the dispute arose.

Claw-back claims

The bank assesses individual requests for the return of amounts from the official receivers, estimating the inherent risks. It assesses the cost/benefits ratio only when it deems it more useful and proposes out-of-court settlements to the counterparties, which are often successful and avoids going to court.

Should a legal proceeding be commenced, the bank evaluates its possibility of losing, updates its risk estimates and defends itself suitably in court, also based on its understanding of the counterparty's insolvency. Once such legal proceedings commence, provision is made for the risks related to the amounts deemed re-obtainable based on internal assessments.

Disputes involving securities

Supported by a number of court rulings in its favour, the bank reviews each dispute and only makes adequate provision when it deems that it may effectively have to pay.

Moreover, the number of proceedings commenced against the bank for the acquisition of securities by customers (mostly Argentine and Parmalat bonds) is very modest compared to the number of transactions performed. The bank does not expect it to increase significantly.

PART F
Equity

Section 1 - Equity

A. Qualitative disclosure

The Measure about the instructions for the prudential treatment of valuation reserves for EU government bonds held in the AFS financial assets portfolio for the calculation of regulatory capital was published on 18 May 2010.

This Measure allows the complete neutralisation of gains and losses recognised on securities issued by EU governments in these reserves using the so called "symmetrical" approach rather than the so called "asymmetrical" approach, where the net loss was entirely deducted from Tier 1 capital and the net gain was partly included in Tier 2 capital.

The bank did not avail of the option allowed by the Measure and has continued to apply the "asymmetrical" approach, as in the past.

The directors' report discloses and comments on the main financial statements indicators which include, in particular, the capitalisation ratios, useful to analyse the bank's equity on a qualitative basis.

B. Quantitative disclosure

B.1 Equity: breakdown

	31/12/2011	31/12/2010
1. Share capital	**39,241**	**39,241**
2. Share premium	**34,660**	**34,660**
3. Reserves	**59,379**	**58,669**
- income-related	*53,249*	*55,385*
a) legal	*14,865*	*14,641*
b) statutory	*41,244*	*40,744*
c) treasury shares		
d) other	- *2,860*	- *2,846*
- other	*6,130*	*6,130*
4. Equity instruments		
5. (Treasury shares)	-	-
6. Valuation reserves	**7,575**	**12,765**
- Available-for-sale financial assets	- 7,547	- 2,357
- Property, equipment and investment property	-	-
- Intangible assets	-	-
- Hedges of investments in foreign operations	-	-
- Cash flow hedges	-	-
- Exchange rate gains (losses)	-	-
- Non-current assets held for sale	-	-
- Actuarial gains (losses) on defined benefit pension plans	-	-
- Portion of valuation reserves of equity-accounted investees	-	-
- Special revaluation laws	15,122	15,122
7. Profit for the year	134	2,244
Total	**140,989**	**147,579**

B.2 Valuation reserves of AFS financial assets: breakdown

	31/12/2011		31/12/2010	
	Fair value gains	Fair value losses	Fair value gains	Fair value losses
1. Debt instruments		7,879	89	2,796
2. Equity instruments	375	44	364	14
3. OEIC units				
4. Financing				
Total	**375**	**7,923**	**453**	**2,810**

B.3 Valuation reserves of AFS financial assets: changes

	Debt instruments	Equity instruments	OEIC units	Financing
1. Opening balance	**- 2,707**	**350**	**-**	**-**
2. Increase	**2,692**	**6**	**-**	**-**
2.1 Fair value gains	28			
2.2 Reclassification of fair value losses to profit or loss	75	-	-	-
- due to impairment				
- on sale	75			
2.3 Other increases	2,589	6		
3. Decrease	**7,865**	**24**	**-**	**-**
3.1 Fair value losses	7,865	24		
3.2 Impairment losses				
3.3 Reclassification of fair value gains to profit or loss				
3.4 Other decreases			-	-
4. Closing balance	**- 7,880**	**332**	**-**	**-**

Section 2 – Regulatory capital and ratios

2.1 Regulatory capital

A. Qualitative disclosure

Regulatory capital is calculated as the sum of the positive components based on their capital quality. They must be fully available so as to be included in the calculation of capital absorption.

Regulatory capital consists of Tier 1 capital and Tier 2 capital, net of certain deductions. Specifically:

1 Tier 1 capital

Tier 1 capital - this includes paid-in share capital, share premium and income-related reserves, net of intangible assets, negative reserves for AFS securities and 50% of the bank's equity investments.

2 Tier 2 capital

Tier 2 capital - this includes the valuation reserves, net of 50% of the positive reserves of AFS securities and 50% of the bank's equity investments.

3 Tier 3 capital

Tier 31 capital - at the reporting date, there were no Tier 3 capital components.

Equity investments in insurance companies are deducted from Tier 1 and Tier 2 capital.

The bank monitors its regulatory capital regularly and risk weighted assets to determine the solvency ratio. This monitoring of actual and forecast developments in the bank's operations and the related impact on the indicators enables it to adopt measures deemed the most suitable from time to time to ensure its balanced growth in accordance with the prudent supervisory indicators.

B. Quantitative disclosure

	31/12/2011	31/12/2010
A. Tier 1 capital before application of prudential filters	**133,342**	**133,187**
B. Tier 1 prudential filters:	- 7,879	- 2,707
B1 - Positive IFRS prudential filters (+)	-	-
B2 - Negative IFRS prudential filters (-)	*7,879*	*2,707*
C. Tier 1 capital including application of prudential filters (A + B)	**125,463**	**130,480**
D. Elements to be deducted from Tier 1 capital	**541**	**541**
E. Total Tier 1 capital (C - D)	**124,922**	**129,939**
F. Tier 2 capital before application of prudential filters	**15,454**	**15,471**
G. Tier 2 prudential filters	- 166	- 175
G1 - Positive IFRS prudential filters (+)	-	-
G2 - Negative IFRS prudential filters (-)	*166*	*175*
H. Tier 2 capital including application of prudential filters (F + G)	**15,288**	**15,296**
I. Elements to be deducted from Tier 2 capital	**541**	**541**
L. Total Tier 2 capital (H - I)	**14,747**	**14,755**
M. Elements to be deducted from Tier 1 and Tier 2 capital	**-**	**-**
N. Regulatory capital (E + L - M)	**139,669**	**144,694**
O. Tier 3 capital	**-**	**-**
P. Regulatory capital including Tier 3 (N + O)	**139,669**	**144,694**

2.2 Capital adequacy

A. Qualitative disclosure

At the reporting date, the bank's regulatory capital was € 139.7 million. The capital ratio was 13.70%, well above the minimum mandatory ratio imposed by the supervisory regulations (8%).

The Tier 1/risk-weighted assets ratio (Tier 1 capital ratio) was 12.26% which, compared to the Total capital ratio, implies that the regulatory capital mostly consists of Tier 1 capital. Tier 1 capital comprises share capital and reserves of € 125.4 million.

Tier 2 capital amounted to € 14.7 million.

The regulatory capital requirements of € 81.5 million refer to credit, operational and market risk. Credit operations account for the most capital with credit risk requirements of € 72.7 million.

Risk-weighted assets amount to € 1,019.1 million and there has been an increase in such assets for credit risk.

B. Quantitative disclosure

	Unweighted amounts		Weighted amounts/requirements	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
A. EXPOSURES				
A.1 Credit and counterparty risk	**1,307,527**	**1,240,305**	**908,523**	**839,144**
1. Standardised method	1,307,527	1,240,305	908,523	839,144
2. IRB approach	-	-	-	-
2.1 Basic	-	-	-	-
2.2 Advanced	-	-	-	-
3. Securitisations	-	-	-	-
B. CAPITAL REQUIREMENTS				
B.1 Credit and counterparty risk			**72,682**	**67,132**
B.2 Market risk			**1,042**	**807**
1. Standard method			1,042	807
2. Internal models			-	-
3. Concentration risk			-	-
B.3 Operational risk			**7,807**	**8,429**
1. Basic method			7,807	8,429
2. Standardised method			-	-
3. Advanced method			-	-
B.4 Other prudential requirements			**-**	**-**
B.5 Other calculation elements			**-**	**-**
B.6 Total prudential requirements			**81,531**	**76,368**
C. EXPOSURES AND CAPITAL RATIOS				
C.1 Risk-weighted assets			**1,019,138**	**954,600**
C.2 Tier 1 capital/risk-weighted assets (Tier 1 capital ratio)			**12.26%**	**13.61%**
C.3 Regulatory capital including Tier 3/risk-weighted assets (Total capital ratio)			**13.70%**	**15.16%**

PART H
Related party transactions

General information

The bank's board of directors has identified the entities that qualify as related parties pursuant to IAS 24.
They are:

1. Fondazione Cassa di Risparmio di Fermo, which holds 66.67% of the bank's ordinary shares and controls it;
2. Banca Intesa S.p.A., which holds 33.33% of the bank's ordinary shares and has significant influence thereover;
3. directors and managers, due to their strategic powers;
4. the statutory auditors, due to their control powers;
5. spouses and immediate descendents of the parties listed in points 3 and 4;
6. subsidiaries or companies over which the parties listed in points 3, 5 and 5 have significant influence.

The key managers' remuneration is given with separate mention of the directors' and statutory auditors' fees compared to the remuneration of directors which receive (as provided for by IAS 24.16) short-term benefits, which include direct and indirect costs, and termination benefits. All other forms of remuneration covered by the standard are excluded. Specifically, managers do not have incentive plans tied to profits or pension plans other than those existing for employees. There are no stock option plans.

Transactions undertaken by the bank with its related parties (as defined above) comply with the ruling legislation, are fair and take place at market prices.

The bank has not performed atypical or unusual transactions with related parties during the year, i.e., transactions that do not form part of its normal operations or that would have a significant impact on its financial position, results of operations and cash flows.

1. Key managers' remuneration (in Euros)

	31/12/2011
C. Managers	**577,669**
Short-term benefits	544,527
Current benefits for terminations	33,142
Total benefits for terminations	*315,972*
A. Directors	**744,561**
Fees	744,561
B. Statutory auditors	**113,909**
Fees	113,909

2. Related party transactions (€'000)

	Assets	Liabilities	Costs	Revenue	Guarantees received
A. Directors	187	5,009	61	81	848
B. Statutory auditors	-	310	3	7	122
C. Managers	39	43	3	2	109
D. Family members	136	3,256	39	65	224
E. Other related parties	14,500	9,859	535	846	50,999
Total	**14,862**	**18,477**	**641**	**1,001**	**52,302**

Annexes to the financial statements

The annexes include:

a) – a list of the sections and financial statements captions that have not been presented

b) – a list of property;

c) – a list of equity investments recognised in the AFS financial assets portfolio

d) – a list of bond issues existing at the reporting date;

e) – treasury and cash services provided.

Sections and tables not presented

This list shows the tables in the notes that have not been presented due to the lack of amounts/operating information:

PART A – FAIR VALUE

A.3.1 Portfolio transfers

- *A.3.1.2 Reclassified financial assets: effects on comprehensive income before transfer;*
- *A.3.1.3 Transfer of HfT financial assets;*
- *A.3.1.4 Effective interest rate and expected future cash flows from reclassified assets;*

A.3.2 Fair value hierarchy

- *A.3.2.3 Changes in financial liabilities at level 3-fair value;*

A.3.3 Information on "day one profit/loss".

PART B – NOTES TO THE STATEMENT OF FINANCIAL POSITION

Assets

SECTION 3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CAPTION 30

- 3.1 Financial assets at fair value through profit or loss: breakdown by product
- 3.2 Financial assets at fair value through profit or loss: breakdown by debtor/issuer
- 3.3 Financial assets at fair value through profit or loss: changes

SECTION 4 - AVAILABLE-FOR-SALE FINANCIAL ASSETS - CAPTION 40

- 4.3 Specifically hedged available-for-sale financial assets

SECTION 5 - HELD-TO-MATURITY INVESTMENTS - CAPTION 50

- 5.3 Held-to-maturity investments: specifically hedged assets

SECTION 6 - DUE FROM BANKS - CAPTION 60

- 6.2 Specifically hedged due from banks
- 6.3 Finance leases

Section 7 - Loans to customers - Caption 70

- 7.3 Loans to customers: specifically hedged assets
- 7.4 Finance leases

SECTION 8 - HEDGING DERIVATIVES - CAPTION 80

- 8.1 Hedging derivatives: breakdown by type and level
- 8.2 Hedging derivatives: breakdown by hedged item and type

SECTION 9 - ADJUSTMENTS TO GENERICALLY HEDGED FINANCIAL ASSETS - CAPTION 90

- 9.1 Adjustments to hedged assets: breakdown by hedged portfolio
- 9.2 Assets hedged generically against interest rate risk

SECTION 10 - EQUITY INVESTMENTS - CAPTION 100

- 10.1 Investments in subsidiaries and associates and interests in joint ventures
- 10.2 Investments in subsidiaries and associates and interests in joint ventures: accounting disclosures

PART G - BUSINESS COMBINATIONS

Section 1 - Transactions carried out during the year

Section 2 - Transactions carried out after the reporting date

Section 3 – Retrospective adjustments

PART I - SHARE-BASED PAYMENTS

A. Qualitative disclosure

B. Quantitative disclosure

PART L – SEGMENT REPORTING

Property

PROPERTY	REVALUATION			GROSS AMOUNT	including land	including buildings	CARRYING AMOUNT
	as per Law no. 72/83	as per Law no. 218/90	as per Law no. 413/91				
Fermo Via Don E. Ricci, 1	1,011,739.07	2,017,280.65	401,803.47	3,498,627.99	349,862.81	3,148,765.18	969,879.70
Fermo Campoleggio Corso Marconi, 19	103,291.38	274,755.07	42,865.92	432,750.15	43,275.02	389,475.13	120,895.04
Fermo Campoleggio - extension Corso Marconi, 19	-	-	1,549.37	19,039.38	1,903.94	17,135.44	4,493.05
Carassai Piazza Leopardi 8/9	25,822.84	24,273.47	11,362.05	66,563.76	8,653.29	57,910.47	13,956.67
Cupramarittima Via E. Ruzzi, 9	-	211,230.87	47,514.03	436,910.79	-	436,910.79	132,004.44
Grottazzolina Via Verdi, 5	51,645.69	32,020.33	25,306.39	124,894.81	-	124,894.81	24,629.06
Montegranaro P.zza Mazzini	175,595.35	47,867.29	41,501.96	200,509.38	-	200,509.38	41,658.78
Monterubbiano Piazza Calzecchi Onesti, 9	46,481.12	63,007.74	18,592.45	131,741.32	13,174.13	118,567.19	33,423.38
Monte San Pietrangeli Via S. Antonio, 6	-	64,040.66	4,131.66	140,636.48	-	140,636.48	56,254.63
Montottone Piazza Leopardi, 8	37,184.90	29,954.50	14,977.25	85,204.37	10,224.52	74,979.85	18,269.89
Monturano Via Gramsci, 32/A	232,405.60	583,079.84	129,114.22	1,058,503.84	158,775.58	899,728.26	284,554.68
Petritoli Via Mannocchi Tornabuoni, 25	28,405.13	88,314.13	12,911.42	135,285.44	13,528.54	121,756.90	36,441.23
Falerone fraz. Piane di Falerone Viale of Resistenza, 95	51,645.69	205,549.85	26,339.30	301,981.85	75,495.47	226,486.38	70,546.33
Porto S. Elpidio Via S. Giovanni Bosco, 10	180,759.91	203,484.02	76,952.08	487,019.99	97,404.00	389,615.99	99,422.32
Porto S. Elpidio - Faleriense Via Marina, 1	180,759.91	167,848.49	81,600.19	499,256.17	70,224.58	429,031.59	126,732.66
Porto S. Giorgio - head office Via Annibal Caro, 11	-	2,471,246.26	73,853.34	5,703,013.66	1,140,602.74	4,562,410.92	1,684,171.87
S.Elpidio A Mare Via Roma, 31	129,114.22	523,170.84	65,590.03	764,747.17	-	764,747.17	244,086.54
S.Elpidio a Mare 1981 extension Via Roma, 31	-	-	34,602.61	127,207.59	-	127,207.59	20,323.38
S.Elpidio a Mare 1983 extension Via Roma, 31	-	-	33,569.70	139,393.78	-	139,393.78	27,185.05
Fermo P.zza Mascagni, 4	154,937.07	211,747.33	66,106.48	455,484.95	-	455,484.95	128,787.09
Fermo - P.zza Mascagni 1984 extension	-	-	5,164.57	25,169.18	-	25,169.18	5,266.52
Fermo Via Ognissanti	-	11,878.51	4,648.11	29,035.21	3,484.22	25,550.99	5,817.38
Fermo Corso Cavour, 104	-	1,066,999.95	217,428.35	2,647,791.16	264,779.13	2,383,012.03	736,788.89
S.Elpidio a mare - Casette d'Ete C. Garibaldi, 3	-	203,484.02	83,149.56	678,504.31	33,925.22	644,579.09	179,653.43
Fermo V.le Trento, 182	-	3,083,247.69	601,672.29	7,454,739.36	1,490,947.88	5,963,791.48	1,852,130.43
S.Benedetto del Tronto Via Liberazione, 190	-	820,650.01	211,230.87	2,356,260.19	164,938.21	2,191,321.98	654,827.68
Fermo c.da S. Martino, 30	-	204,000.48	21,174.73	424,648.94	127,394.68	297,254.26	97,956.97
Civitanova Marche Via cairoli, 22	-	388,375.59	30,987.41	804,859.80	-	804,859.80	275,684.35
Porto S. Elpidio - Faleriense Piazza Giovanni XXIII, 14	232,405.60	108,455.95	-	419,019.11	-	419,019.11	364,710.66
Fermo Torre Matteucci	-	-	-	0.01	-	0.01	-
Fermo V.le Ciccolungo area	-	-	-	0.01	-	0.01	-
Grottazzolina Via Fonterotta	-	-	-	476,932.12	-	476,932.12	476,932.12
Pescara Piazza Duca d'Aosta, 30	-	-	-	1,908,478.18	-	1,908,478.18	820,645.56
Montegranaro Via Gramsci	-	-	-	465,720.02	-	465,720.02	291,075.02
Recanati Santacroce 34/E	-	-	-	301,285.46	60,257.09	241,028.37	150,642.76
Rome Via Puglie 15/21	-	-	-	2,932,724.03	-	2,932,724.03	2,272,861.13
Colli del Tronto Via Matteotti, 2	-	-	-	342,295.20	-	342,295.20	267,066.51
Porto S. Elpidio - Restructuring Via S. Giovanni Bosco, 10	-	-	-	497,084.46	99,416.89	397,667.57	308,192.35
Fermo - Loc. Molini Girola	-	-	-	30,250.00	6,050.00	24,200.00	20,870.08
Falerone fraz. Piane - Restructuring Viale of Resistenza, 95	-	-	-	111,836.61	-	111,836.61	101,760.13
TOTAL	**2,642,193.48**	**13,105,963.54**	**2,385,699.81**	**36,715,406.23**	**4,234,317.94**	**32,481,088.29**	**13,020,597.76**

List of equity investments recognised in the available-for-sale financial assets portfolio

OTHER INVESTMENTS	2010 carrying amount	Changes in 2011			Carrying amount 31/12/2011	of which for revaluation or transfer	of which fair value
		(+) Purchases	(-) Sales	(+/-) Fair value			
SEDA -Soc. Elaborazione Dati S.p.A.	256,584.48	0.00	0.00		256,584.48	23,240.56	130,235.85
SE.BA. - Servizi Bancari S.p.A.	0.00	0.00	0.00	0.00	0.00		
BANCA D'ITALIA	1,082,560.80	0.00	0.00		1,082,560.80	1,082,493.66	
Centro Documentazione per le Imprese	0.00	0.00	0.00		0.00		
Cartasi S.p.A.	266,219.94	0.00	0.00		266,219.94		232,283.31
Intesa Sanpaolo S.p.A.	64,019.98	12,260.76	0.00	-24,326.14	51,954.60		-44,171.11
SIA S.p.A.	161,770.00	0.00	0.00		161,770.00		139,703.54
SI.TE.BA. S.p.A.	2,073.06	0.00	0.00		2,073.06		
Gruppo d'Azione Locale "Piceno" s.c.a.r.l.	2,065.84	0.00	0.00		2,065.84		
Alipicene S.p.A.	2,582.00	0.00	0.00		2,582.00		
S.W.I.F.T. - Brussels	2,529.08	0.00	0.00		2,529.08		
Fermano Leader s.c.a.r.l	3,000.00	0.00	0.00		3,000.00		
CSE Consorzio Servizi Bancari S.r.l.	1,680,000.00	0.00	0.00		1,680,000.00		
CONFIDICOOP MARCHE	100,000.00	0.00	0.00		100,000.00		
TOTAL AS PER ACCOUNTING RECORDS	**3,623,405.18**	**12,260.76**	**0.00**	**-24,326.14**	**3,611,339.80**	**1,105,734.22**	**458,051.59**

List of bond issues existing at the reporting date

Bond issue ISIN number	Issue date	Maturity date	Amount €'000
ISIN "IT 0004310204"	04/02/2008	04/02/2012	14,749
ISIN "IT 0004379498"	03/07/2008	03/07/2012	24,786
ISIN "IT 0004412653"	06/10/2008	06/10/2012	13,137
ISIN "IT 0004433949"	02/12/2008	17/01/2012	6,115
ISIN "IT 0004448327"	19/01/2009	19/01/2013	18,691
ISIN "IT 0004452717"	04/02/2009	19/01/2013	16,083
ISIN "IT 0004452725"	04/02/2009	04/02/2012	4,951
ISIN "IT 0004475908"	01/04/2009	01/04/2012	3,418
ISIN "IT 0004488539"	06/05/2009	06/05/2013	8,594
ISIN "IT 0004495625"	05/06/2009	05/06/2013	4,405
ISIN "IT 0004506116"	06/07/2009	05/06/2013	7,260
ISIN "IT 0004520828"	01/09/2009	01/09/2013	9,663
ISIN "IT 0004584832"	17/03/2010	17/03/2012	9,304
ISIN "IT 0004584840"	17/03/2010	17/03/2014	8,953
ISIN "IT 0004648801"	18/10/2010	18/10/2014	5,131
ISIN "IT 0004673627"	03/01/2011	03/01/2014	13,356
ISIN "IT 0004674146"	03/01/2011	03/01/2016	10,000
ISIN "IT 0004687858"	08/02/2011	08/02/2016	9,948
ISIN "IT 0004701956"	18/03/2011	18/03/2014	10,500
ISIN "IT 0004701972"	18/03/2011	18/03/2016	18,500
ISIN "IT 0004727837"	06/06/2011	06/06/2014	5,577
ISIN "IT 0004727845"	06/06/2011	06/06/2015	6,201
ISIN "IT 0004761711"	30/09/2011	30/09/2013	17,757
ISIN "IT 0004761653"	30/09/2011	30/09/2014	8,098
Total			**255,177**

During 2011, bond issues of € 52,419 thousand expired while the bank placed new bond issues of a nominal € 99,937 thousand.

The bank has not issued bonus shares, bonds convertible into shares, subordinated bonds or securities or similar instruments.

Furthermore, the bank has not issued own bank drafts as it has entered into specific agreements for the issue of third party bank drafts.

Treasury and cash services provided

Treasury services	
Body	**Municipality**
Com. Carassai	Carassai (AP)
Com. Fermo	FERMO
Com. Grottazzolina	Grottazzolina (FM)
Com. Lapedona	Lapedona (FM)
Com. M. Vidon Combatte	Monte Vidon Combatte (FM)
Com. M.S. Pietrangeli	Monte S. Pietrangeli (FM)
Com. Monsampietro Morico	Monsampietro Morico (FM)
Com. Monte Giberto	Monte Giberto (FM)
Com. Montefiore dell'Aso	Montefiore dell'Aso (AP)
Com. Monteleone	Monteleone di Fermo (FM)
Com. Monterubbiano	Monterubbiano (FM)
Com. Montottone	Montottone (FM)
Com. Moresco	Moresco (FM)
Com. Petritoli	Petritoli (FM)
Com. Ponzano di Fermo	Ponzano di Fermo (FM)
Com. Porto Sant'Elpidio	Porto Sant'Elpidio (FM)
Com. Rapagnano	Rapagnano (FM)
Com. Ripe San Ginesio	Ripe San Ginesio (MC)
Com. Sant'Elpidio A Mare	Sant'Elpidio A Mare (FM)
Com. Servigliano	Servigliano (FM)
Com. Torre San Patrizio	Torre S. Patrizio (FM)
Province di Fermo	FERMO

Cash services	
Body	**Municipality**
Az.Agraria ITI Montani Fermo	FERMO
C.C.I.A.A. FERMO	FERMO
Casa Riposo Sassatelli	FERMO
CCIAA AZ.FERMO PROMUOVE	FERMO
CISSRSU T.S. Patrizio	Torre San Patrizio (FM)
Comunità di Capodarco	FERMO
Cons.musica"G.B.Pergolesi"	FERMO
Convitto ITI Montani Fermo	FERMO
Croce Rossa Italiana	FERMO
Dir. Didattica II Circ. Faleriense	Porto Sant'Elpidio (FM)
Dir. Didattica Monte Urano	Monte Urano (FM)
Dir.Didattica III circolo Fermo	FERMO
Distretto scolastico n.15 - Fermo	FERMO
ERAP	FERMO
G.D'Inf.. Principe di Napoli Cu.	Cupramarittima (AP)
Ist. Compr. Da Vinci/Ungaretti	FERMO
Ist. Compr. Petritoli	Petritoli (FM)
Ist. Compr.Monterubbiano	Monterubbiano (FM)
Ist. Comprensivo Bellante St.	Bellante (TE)
Ist. Scol.Betti/Fracassetti	FERMO
Ist. Stat. d'arte Preziotti	FERMO
Ist.comm.le/geom. Carducci	FERMO
ITIS G. Montani Fermo	FERMO
Liceo Ginnasio Annibal Caro	FERMO
Liceo Scient. Calzecchi Onesti	FERMO
Mercato Ittico Porto San Giorgio	Porto San Giorgio
O.P. G.Didari Francavilla D'Ete	Francavilla D'Ete (FM)
O.P. Ric. Montegranaro	Montegranaro (FM)
OO.PP. Riunite M.S.Pietrangeli	Monte S. Pietrangeli (FM)
Ospizio Marino	FERMO
Pia Casa F. Falconi	Sant'Elpidio A Mare (FM)
Sc. M. Galilei/Marconi P.S.E.	Porto Sant'Elpidio (FM)
Soc.operaia di mutuo socc.	FERMO