Banca di Bologna

MANAGEMENT REPORT

REFERENCE FRAMEWORK

THE ECONOMIC AND FINANCIAL SITUATION

The world economy has already begun to emerge from the recession and this trend continued during the second semester of 2009: according to the World Bank data, global GDP grew during 2010 by 4.6%. However, this recovery is weak and uncertain, with growth slowing relative to the first part of the year due to the reduction of some factors, including fiscal policy interventions that have failed to create an environment of self-sustaining growth. The state of the financial markets during 2010 continue to show a positive trend, starting in April 2009, but this trend is slowing, influenced by skittishness over the public debts of some European States (Greece, Ireland and Portugal). The European Central Bank has done nothing regarding the interest rates on the principal refinancing operations of the Euro system, retaining it at 1% in the belief that prices will remain in line within the purview of fiscal politics. This is despite the evidence of brief upward pressures on overall inflation. Conditions for credit have improved and banks have increased their credit offerings in the private sector, but overall budgets have remained stable while the demand for funding continues to increase. It is therefore imperative for banks to retain profits and strengthen their capital bases to take on this challenge and increase the availability of funds.

The economy of the United States has seen the strongest growth since 2005, with an increase in GDP of 2.9% – a level of growth that remains, however, below its potential and sustained by massive commitments by the Federal Reserve in the form of quantitative easing. The GDP of Japan grew by 3.9% in 2010, but was overtaken by China (+10.3% on 2009). The Eurozone's recovery has been primarily thanks to increased exports, consumption and investments. Its financial markets have benefited from improvements and an increase in confidence, yet other issues are slowing this growth, including a high, stable, level of unemployment (10% in Europe, 8.6% in Italy), a balancing act still on the balance sheets of firms and families; public budgets on which the weight of the anti-crisis interventions still weigh heavily, and the restrictive interventions in fiscal policies put into place as a consequence.

With regard to the so-called "emergent economies", Brazil has recorded an increase in GDP of +7.5%; Russia has seen a rise of 2%, while India has recorded a notable economic expansion, with a GDP increase of +8.2%.

In Italy, the recession phase lasted seven trimesters and ended at the beginning of 2010; the subsequent growth has, however, been weak and uncertain: the ISTAT (National Institute of Statistics) data released on the 1st of March this year indicates an increase in GDP of 1.3% over the previous year, and in real terms,Italy's GDP is at same level as it was in 2003. The public debt stock is also alarming, reaching 119% of GDP in 2010; the nation is exposed to the risk of an increase in interest rates without a corresponding increase in productivity. The ISAE (the Italian Institute for Studies and Economic Analyses) index of consumer confidence has fluctuated of late, and the median value at the end of 2010 shows it to be slightly below that in 2009. Unemployment is at 8.6% (rising to 29.4% for those under 24 years of age).

THE ITALIAN BANKING SYSTEM[1]

The funding situation in Italy is generally positive. During 2010, collected funds (deposits and bonds) rose from EUR 1980 billion to EUR 2192 billion (+3.1%). Observations of the various components shows how deposits from residential clients (into current accounts, deposits with agreed maturity, deposits redeemable at notice, and repurchase agreements), have recorded an annual growth of 6.3%, while the annual variation of bank bonds is -1.6%. The growth of repurchase agreements with clients is at very sustainable levels (+82.6%). The average rate of return on bank collection, remained virtually unchanged for 2010, and closed the year at 1.50%, close to the 1.59% recorded in December 2009.

With regard to banking jobs, these have followed a positive trend that has strengthened over the course of the year, reaching +4.3% at the end of 2010. Considering the unbundling over time, it is revealed that the sector, over the medium and long term, has signalled a trend of +4.9% against +0.8% over the same sector during the short term. Loans to enterprises have recovered by +1.6%, while loans to families remain at a level +7.6%, of which mortgages make up 8%. Loan rates are still close to their historic lows: in December 2010, they were at 3.62%, against 3.76% a year earlier. On the other hand, loans to non-financial enterprises have increased to 2.79% against the 2.17% recorded in December 2009, while the growth of loans to families for purchasing homes rose to 2.97% compared to 2.88% at the end of 2009. It is evident that

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even for 2010, the net worsening of banking activity implies a continuation of the present economic uncertainty. At the end of 2010, the damage from write-downs will exceed EUR 77.7 billion, almost 19 billion more than in December 2009. The ratio of gross damage and jobs has reached 4.5%.

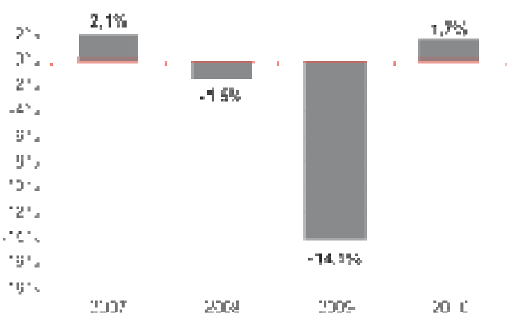
[FOOTNOTE PAGE 5] [1] The implementation of ECB regulation ECB/2008/32, which, in practice, requires consideration of all securitized, or otherwise transferred, loans in accounts, and the liabilities associated with them, that do not satisfy the criteria of cancellation required by international accounting standards (IAS), has caused a discontinuity in the historic reporting of loans and deposits in the banking system, starting in June 2010. The data in this report are therefore derived from estimates provided by the Bank of Italy.

THE LOCAL ECONOMY

In 2010, the growth of GDP in Emilia-Romagna of 1.5% counters, albeit minimally, the fluctuations seen in 2008 (-1.5%) and 2009 (-5.9%). It is no doubt a positive sign of the reversing of the negative cycle in production, sales and orders for industrial sector, above all for those businesses more oriented towards foreign markets where they have taken advantage of the recovery of international commerce. In the credit sector, bank loans have risen slightly, while access to credit has proved a little less problematic compared to 2009. The most acute phase of the crises should be behind us, but regrettably, the weak rise in GDP has not yet had the positive effects expected on employment, the Redundancy Fund ("CIG") is still heavily relied upon, and the recovery has been less evident among small businesses, craft industries, construction, and commercial establishments. The Emilia-Romagna region has recorded an average growth in production of just 1.7% over the year, partly recovering from the fluctuations of 14.1% and 1.5% recorded in 2009 and 2008 respectively. Through 2010, the mechanical, electrical and transport vehicle construction industries have recorded the highest growth (+3.1%), followed by metals (+2.7%), but negative results are not hard to find either, with fashion down 2.2% and the alimentary sector, acyclic sector *par excellence*, down 0.4%.

When looking at business sizes, we note that the larger businesses, more focused on exports, have benefited the most from the recovery of global commerce and trade. In fact, the production rate for small businesses (up to 10 employees), has fallen by 1.4%, which is added to the two previous downturns. Over the same period, medium enterprises (10-49 employees), like the larger, more structured counterparts (50-100 employees) have ended 2010 with a productivity increase, respectively, of +1.1% and approximately +3%.

Figure 1–Industrial production trend in Emilia-Romagna (Source: Unioncamere Emilia-Romagna)



MANAGEMENT REPORT

NOTE

In the context of a weak economic recovery, and of financial markets characterised by strong pressures and elevated levels of volatility, 2010 has frustrated expectations of a breakthrough leading to the desired definitive and long desired end of the global financial crisis, which has now dragged on for three years. Under these conditions, with little light and much darkness, the opportunities for generating profits within the banking system have been few and far between. In particular, the profitability of more "traditional" credit institutions that rely on brokering between clients, has been strongly affected by interest rates at historic lows, the rising cost of direct deposits, and from continued high levels of write-downs on receivables. Tensions in financial markets have contributed to a marked deterioration, compared to the previous financial year, of the results from trading activities. The difficulties the system faces on the revenues side has placed operating costs at the top of the list of priorities.

Despite this "difficult" context, the Bank has tackled the need to balance its increasing credit risks without adding to the existing problems of the local economies. The following tables summarise the results of these actions and should offer some comfort.

Of particular note are:

* The improvements in the indicators of revenues (ROE, ROA);
* The increase in productivity per employee (Management costs / avg. employees)

The increased quality of the Bank's credit portfolio, certified by indicators such as the impact on total gross investment to ordinary customers, of loans (1.65%) and value adjustments on receivables (0.71%). Values that well below the average in the provincial, regional and national banking system.

* The maintenance of high standards of operational efficiency that, despite significant investments, have allowed cost / income to be maintained below the 69% threshold.

[TABLES AND CHARTS FOLLOW]

QUOTIENTS AND INDICES

	2009	2010
ROE	2.37%	2.79%
ROA	0.33%	0.42%
Leverage	11.54	12.10
Earnings / Management results	62.87%	55.41%
Margin on Interest / assets	1.83%	1.84%
Brokerage margin / assets	3.12%	3.08%
Cost / income	66.98%	66.76%
Total obligations / total income	102.14%	109.69%
Admin costs / avg. employees (1000)	6.88	7.62

KEY DATA

The most representative data for the 31st December 2010 Budget, which are annotated in their respective sections, are summarised in Tables 1 and 2.

Table 1 – BALANCE SHEET – Main entries (values in thousands of Euros)

	2009	2010	Var. %
Balance sheet total	1 681 821	1 768 009	5.1%
Credit to customers	1 356 487	1 414 472	4.3%
Stock portfolio	209 451	206 511	-1.4%
Total income	1 223 593	1 310 112	7.1%
Equity	145 213	145 445	0.2%
Indirect income	845 186	885 354	4.8%

Table 2 – RECLASSIFIED INCOME STATEMENT (values in thousands of Euros)

	2009	2010	Var. %
Margin on interest	30 766	32 456	5.5%
Net commissions	15 290	16 660	9.0%
Neg. –Cop. –Val. FV results	3 510	2 579	n/a

Other expenses / operating income	2 950	2 806	-4.9%
Brokerage margin	52 516	54 501	3.8%
Adjustment/write-backs: credit and financial operations	-11 853	-9 671	-18%
Net operating surplus	40 664	44 830	10.2%
Operating costs	35 173	37 473	6.5%
Gross operating surplus	5 490	7 357	34.0%
Net provisions for risks and charges	589	-349	-159.2%
Profit (loss) from investments	0	-348	0.0%
Profit (loss) from sale of investments	-24	-48	97.7%
Gross profit	6 055	6 613	9.2%
Tax on income	-2 604	-2 536	-2.6%
Net profit	3 452	4 077	18.1%

ADMINISTERED VALUES

Figure 2 – Administration of clients trends (in millions of Euros)

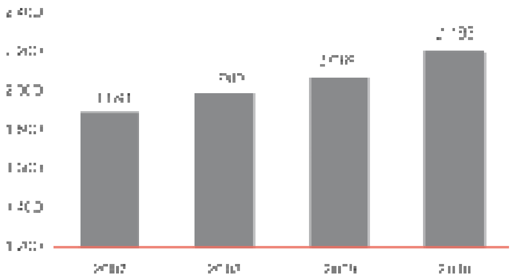
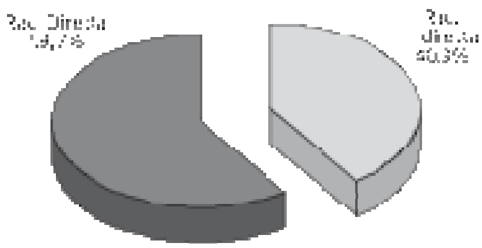


Figure 3 – Composition of administered resources

"Rac. Diretta" = "Direct Income"
"Rac. Indiretta" = "Indirect Income"



The resources administered in 2010, valued at market prices, are EUR 2.195 billion, with an increase of 6.1% over the previous financial year. This growth is due to the contributions of increased income from clients (7.1% over the previous period), and indirect income, which contributed +4.8% over 2009 levels.

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DIRECT INCOME

The core growth in the income from clients (Table 3) is 4.3%. Considering also some extraordinary reserves, accounted for under "Other income" in Table 3, such as the funding from the Deposits and Loans Fund and its operation with the Compensation and Guarantee Fund for the NewMic operations, the aggregate increases to 7.1% over the previous financial year. The dynamics of the sector reflects primarily external mechanisms, including: weak demand for highly remunerative instruments (in particular, repo-term and deposit certificates), the uncertainty that continues to characterise the markets and economy that has constituted an incentive for the clients to prefer activities that offer quicker access to liquidity (e.g. current accounts); and, to a lesser extent, internal mechanisms, such as the bank's preference in not renewing the approximately 38 million Euros in loans obligatorily collocated with institutional investors and which expired during 2010, or the commercial initiatives promoted on savings deposits. On 31/12/2010, the stock accounted as income from clients reached EUR 1.310 billion.

Table 3 – DIRECT INCOME (accounting data, 1000s of Euros)

	2009	2010	Var. %
Taxable accounts	593 965	636 986	7.2%
Savings deposits	37 679	53 580	42.2%
Deposit certificates	173 825	154 125	-11.3%
Bonds	402 084	419 919	4.4%
Repo-terms	8 617	4 873	-43.5%
Currency income	4 557	4 063	-10.9%
Direct income	**1220 727**	**1 273 545**	**4.3%**
Other income	2 866	36 566	1.176%
Income from clients	**1223 593**	**1 310 112**	**7.1%**

Analysing the short-term and medium-term sources of income separately, it can be noted that: in the short term, two opposing trends are visible that see the growth of "deposits" (current accounts, savings deposits and certificates of deposit at 4.3%) and the contraction (-43%) of the repo-terms; from a medium-long term perspective, represented by the bank's obligations, an increment of 4.4% over 2009 has been recorded, mitigated in part by the decision not to renew the bonds subscribed by institutional investors (as mentioned earlier). The comparison in terms of stock of the bank's outstanding bonds is not sufficient to fully counter the excellent performance of placements made with ordinary customers who have reached 191 million, up from 157 million in 2009, representing a 22%.

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Figure 4 – Trends in customer deposits (amounts in millions of Euros)

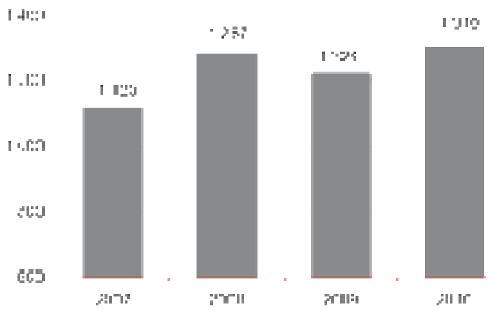
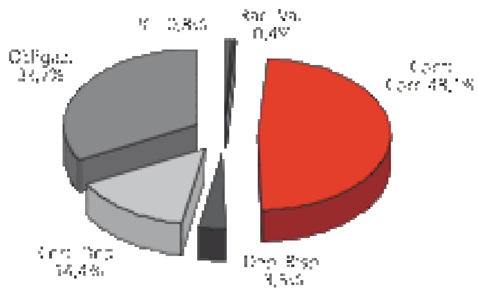


Figure 5 – Composition of deposits (average annual values)



"Rac. Val." = "Dir. Income"
"Conti Corr." = "Current Accounts"
"Dep. Risp." = "Savings Deposits"
"Cert. Dep." = "Deposit Certificates"
"Obligaz." = "Obligations"
"PCT" = "Repo"

INDIRECT INCOME
At the end of 2010, indirect income accounted for approximately EUR 885 million (Table 4), an increase of 4.8% over the previous year. This total includes: a small contraction in administered income (-1.7%), particularly in the obligatory component, which ends the year with intermediate assets of EUR 552 million; an increase of 15.6% for the management sector, which reaches EUR 364 million, formed primarily from individual asset management (+20.2%) and common and SICAV (+15.3%), which on 31st December represented managed assets of EUR 160 million and EUR 196 million respectively.

Table 4 – INDIRECT INCOME avg. (Values in millions of Euros in December)

	2009	2010	Var. %
Securities management[2]	530 582	521 755	-1.7%
Asset management[3]	314 604	363 599	15.6%
	845 186	885 354	4.8%

2 Excludes bonds issued by Bank of Bologna.
3 Includes funds and insurance products, does not include the balance of current accounts bearing securities, direct deposits included in balance.

Figure 6 – Indirect income trends (values in millions of Euros)

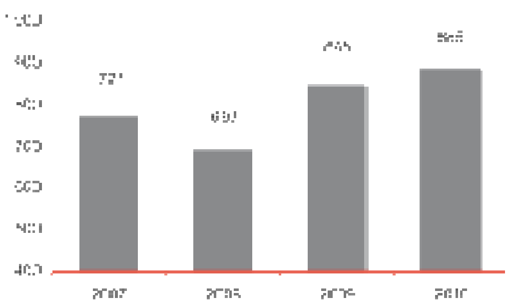
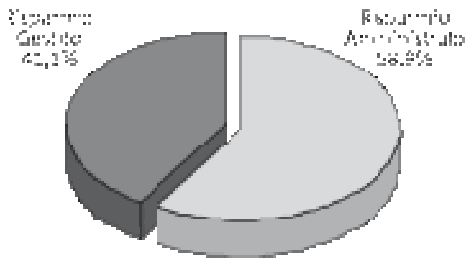


Figure 7 – Composition of indirect income



"RisparmioGestito" = "Investment Management"
"RisparmioAmministrato" = "Administrative Savings"

The Individual Asset Management services recorded, at the end of the financial year, managed assets of EUR 160.3 million (EUR 133.4 million in 2009), representing an increase of managed assets of EUR 26.9 million (+20.2% over the previous year).
During 2010, most of the riskier financial activities were re-evaluated, such as the principal international stock markets. This was countered by the trend of the government bond sector, which suffered from problems related to sovereign debt of some countries of the Eurozone (increased credit issuer risk).
The uncertainties recorded during the year have not prevented the management services producing generally positive results for 31st December. Particularly rewarding was the special attention paid to the preservation of capital through constant monitoring of the risk arising from investment in various asset classes.

SECURITISATIONS
In 2010, the bank continued the restructuring process of securitization begun in April 2006, as it had in fact exhausted its ability to generate funding. The new operation, started in the first half of the year, is an operation of so-called "self-securitisation", which allows the originator to raise funds at competitive prices using the senior notes, issued by the vehicle to access the repurchase (repo) channel offered by the ECB.

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The current operation, called "Felsina 2" has seen the Bank enter into a contract of sale[4] without recourse to monetary claims, prepared pursuant to and for the purposes referred to in conjunction with Article 1 and 4 of Law No. 30 April 1999 . 130 and Art. 58 of the Banking Law, of a portfolio of mortgage loans, purchased from the vehicle. This portfolio, selected on the valuation date of 31st January 2010, was consisted of 2639 mortgage loans, of which 84.5% were residential and 15.5% commercial, for a total amount of EUR 247 178 922 49, of which EUR 158 408 642.07 at a variable rate, and EUR 88 770 280.42 at a fixed rate.
To finance the purchase of this portfolio, the Felsina Funding S.r.l. vehicle issued, on May 27, 2010, amortizing bonds maturing in December 2049, for a total of EUR 247 150 000, of which € 217 million were Class A (Senior Notes, 87.8%) and EUR 30 150 000 were Class B (Junior Notes, 12.2%). These bonds were fully subscribed by the Bank. The Class A securities were listed on the Dublin stock exchange, after receiving a public long-term rating of AAA by rating agencies Standard & Poor's and Moody's.
The total credit enhancement starting levelis 15.2% of the mortgage portfolio selected at the valuation date, and is the sum of the value of shares of Class B (EUR 30 150 000, 12.2% of the mortgage portfolio at the date of evaluation), and cash reserve (Cash Reserve Initial amount) of EUR 7415368 (3% of the mortgage portfolio at the valuation date). The transaction is assisted by a hedging interest rate risk inherent in the loan portfolio transferred to the vehicle, through the use of a Swap structure. On July 26,

2010 the Central Bank of Ireland made the Class A securities eligible to be used as collateral in repo transactions with the European Central Bank (ECB), and the operation of the MIC and NeW since August, and the bank could then use this additional channel of supply. The securitized portfolio at end-2010 has all the mutual relations (2 448) performing at a price of EUR 215 437 659 000 million.

4 The securitised activities remain in the bank's balance sheet because there are no features in IAS 39 for de-recognition.

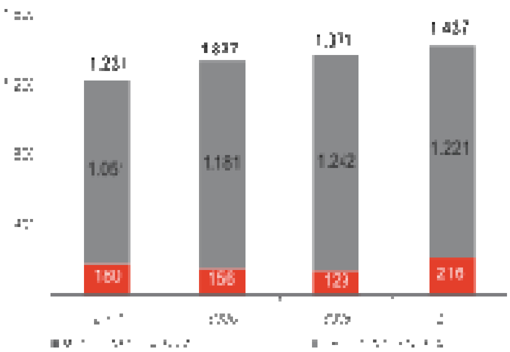
CLIENT SERVICES

On 31st December, 2010, the size of loans to ordinary customers, net of depreciation, amounted to EUR 1.437 billion, an increase of 4.8% over 2009. In terms of average annual capital, the Bank's has increased by 3.4%.

Table 5 – CLIENT SERVICES (values in thousands of Euros)

	2009	2010	Var. %
Current accounts	467 546	476 220	1.9%
Portfolio discount	8 440	8 706	3.2%
Mortgages	861 393	906 639	5.3%
Currency borrowings	21 634	20 249	-6.4%
Non-performing items	11 188	23 740	112.2%
Investments	**1 370 201**	**1 435 553**	**4.8%**
Other investments	1 104	1 512	37.0%
Investments towards clients	**1 371 305**	**1 437 065**	**4.8%**

Figure 8 – Trends and composition of client services (values in millions of Euros)



"MUTUI CARTOLARIZZATI" = "SECURITISED MORTGAGES"
"CREDITI A CLIENTELA" = "CREDIT TO CLIENTS"

By analysing the dynamics of duration of these loans, a reversal of the trend can be seen in employment over the short term, after the drop in 2009, the year closed up 1.5% (Dec. - Dec.) with a more sustained rise (+5.3%, Dec. - Dec.) for the component characterized by medium-and long-term maturities.
Looking at individual technical forms, the short-term elements show increased commitments for overdrafts on current accounts (1.9%) and the commercial portfolio (3.2%). Funding towards foreign counterparts (-6.4%) has shrunk.
The trend of medium-and long-term (+5.3%) was, once again, driven by growth of credit extended to households, driven mainly by loans for purchase of homes. During 2010, 59% of lending has gone to the private sector compared to 55% in 2009, while 74% (75% in 2009) of new loans are mortgages.
Credit commitments declined by 6.6% reaching a peak of EUR 105 million, a symptom of the difficulties that still characterize the property industry. The on-going financial and economic crisis and the weakness of the economic situation has inevitably increased the number of agencies who may be considered technically (as defined by the supervisory board) "in a temporary situation of objective difficulty, which is expected to be resolved within a reasonable period of time."

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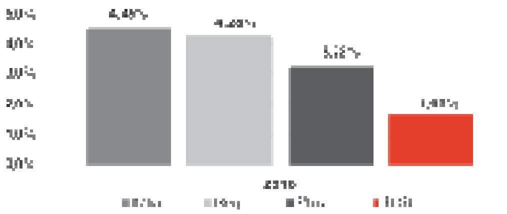
The situation described has had significant effects on the dynamics of the portfolio of impaired loans (doubtful, substandard, restructured and overdue), although the frequent presence of capacious collateral helped soften the impact of write-downs, as demonstrated on the impact of adjustments Net impairment of receivables (income statement item 130.a) in total loans to customers that went from 0.75% last year to 0.71% in 2010. Other indicators of credit quality such as the impact on customer loans, gross NPLs amounting to 1.65%, of net bad debts amounting to 0.79% (the Italian banking system recorded an overall figure of 2.43%). The incidence of non-performing loans on the capital, which stands at 7.96% (the figure at the national level stood at 13.28%), while showing an increase of safe levels and remain significantly below the figures recorded by the banking system, as evidenced by Figure 9.

Figure 9 – IMPACT OF DELAYS IN SETTLING (Source: Bank of Italy and internal data)

"Italia" = "Italy"
"Reg." = "Regional"
"Prov." = "Provincial"
"BdB" = "BdB"



Finally, Table 6 shows, with regard to the value of investments at end-2010, the primary economic sectors served.

Table 6 – PRIMARY ECONOMIC SECTORS SERVED

Economic Sector	Incl. % investments towards economic sectors	
	2009	2010
Other sellable services	39.70%	41.34%
Construction and public works	18.81%	16.40%
Commercial services, recovery and repair	12.51%	14.19%
Metal products, excluding machinery and transport vehicles	4.57%	5.00%
Agricultural products, forestry, and fishing	2.53%	3.67%
Other branches	21.88%	19.40%

FINANCIAL MANAGEMENT

The results of the investment portfolio, which on 31st December 2010 was valued by the market at circa EUR 207 million, has been affected by the elevated volatility concerning credit spreading and, in particular, Italian government bodies; the widening of the spread has hit the latter, particularly during the second half of the year, has been the main cause of losses recognized in equity reserve AFS (available for sale); in 2010 this generated a negative change in fair value (market value) of 2.3 million. The total amount of the reserve asset is, to 31st December, 2010, -6.2 million euros, before deferred tax.
The overall efficiency of the property portfolio was equal to 2.085%, compared with a yield of 3.92% in 2009, showing a positive margin of 1.514% on the notional cost of borrowing (Euribor 1m), compared to a VAR (annual, at 99%) that is set to 0.68% (0.95% on 31/12/2009).
The extraordinary income from financial transactions accrued during the year amounted to EUR 856 000, resulting from net trading income and gains on the entire portfolio of properties for EUR 875 000 and losses on securities at EUR 19 000.
No loss is derived from impairment tests on mutual fund shares in the portfolio of properties AFS.
There are no government bonds in the portfolio issued by Greece, Ireland, Spain and Portugal.

MANAGEMENT, MEASUREMENT AND CONTROL OF RISKS
31 December 2010 saw the partial implementation of the new Basel III regulations, proposed by the Basel Committee and approved on November 12, 2010 in Seoul by the G20.This represents the evolution of the previous regulations known as "Basel II".
The need for regulatory review was triggered by the deep financial crises that began in 2007 and the effects of which are still being felt today. This has profoundly transformed the known world until recently. Supranational bodies and central authorities around the world have since tried to identify and incorporate appropriate corrective and preventive measures in Basel III that can, on the one hand, remedy the inefficiencies highlighted by the market, and on the other, to lay the foundations to prevent a recurrence in the future of the economic turbulence experienced in the last three years.
The major new features in Basel III, which expands the scope and intervention of the previous legislation, are schematically summarized as follows:

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1 – a new definition of regulatory capital;
2 – new capital ratios;
3 – new rules for trading and derivatives;
4 – introduction of indicators of liquidity;
5 – introduction of an upper limit of indebtedness.

The aim of the measures introduced by Basel III, the goal of the Basel Committee, and of the governments of major countries, is to fill in the gaps left in the prior Basel II regulations, albeit with deferred effects over time that can be fully appreciated only in a few years. For the entry into force of the new regulations, and in order to allow banks to adapt to new requirements in time without causing trauma to the economy, long lead times have been established that provide for a gradual, phased transition from 1st January, 2013 to end 1st January, 2019, when the new legislation will be fully in force.
The Bank, in order to meet the statutory deadlines, promptly began the process of adapting to the new, more stringent and demanding legislation. Considering the Bank's traditional commercial banking activities and lack of engagement in speculation, its strong capital base, and low degree of leverage, organizational and operational impacts should therefore be significantly lower than those that are affecting the main national and international banking groups. The Bank, in relation to assumption, monitoring and mitigation of risks, continues to be inspired in its operations, however, breaking continuity with the past, and adopting particularly prudent guidelines that are reflected in a traditional role of the institution of minimal risk-taking, as well as a system of internal limits for surveillance and containment of risks within very conservative thresholds.
For a detailed discussion of the risk profile of the Bank, its management policies, and hedging, see Part E of the notes.

RESULTS OF OPERATIONS
The Reclassified Income Statement (Table 2), which split other income / expense accruals and the BC-Net provisions for risks and charges from the operational costs, placing them respectively in operating income and gross operating income after operational results, reveals:

- The increase in the Margin of Interest (+5.5%), which reached EUR 32.5 million (against 30.8 million in 2009). The aggregate includes a substantial holding by the commercial component (+0.7%), the contribution of which becomes the major factor when considering the interest differentials from hedging interest rate risk policies, a reduction of the cost of funding received from securitization through the restructuring of the operation in place, a reduced contribution from the financial component (property portfolio) as determined by the performance of market rates.
- The brokerage margin income, amounting to 54.5 million (52.5 million in 2009) grew by 3.8% with the positive contribution of net interest and commission income (+9%). To the growth in net commission income contributed both banking services (+6.2%) and the proceeds of indirect income (+15.5%). The positive contribution of financial management (+2.6 million profit) despite the tensions in financial markets has in fact prevented replication of 2009's performance.
- The **net result from financial operations** amounted to approximately EUR 44.8 million, compared to 40.8 million last year, registering a growth of 9.8%. The result of adjustments (item 130 of the Income Statement), amounting to 9.6 million (compared to 11.7 million the previous year), was the result of a more rigorous and prudent policy in terms of provisions on credits in a difficult economic situation has led to adjustments on loans of 10.2 million at a cost in credit[5] of 71 bps, 75 bps lower than recorded in 2009, which aggregates to a significant improvement of the valuations of financial items where there are value increases of EUR 571 000 against adjustments of EUR 1.47 million accounted for in the 2009 budget.
- **Operating expenses** amounted to €37.5 million, up 6.5% on the previous year. The personnel expenses increased by 5%, other administrative expenses rose by 9.3% and depreciation of tangible assets and intangible assets reduced by 5.6%. The increase in personnel costs is due essentially to contractual increases, the effects of which are discharged in the current financial year, and to the resumption of the incentive system suspended in 2009 because of the situation of general crisis and the uncertainties over possible developments. The increase shown by

the administrative expenses is largely attributable to securitisation restructuring costs. Operating costs were well absorbed by the growth of the margin, which allowed the cost / income ratio to be maintained below the threshold of 69%.

5 Ratio of net adjustments to loans (Income Statement item 130.a) and gross loans to customers (item 70 of the funds before the balance sheet)

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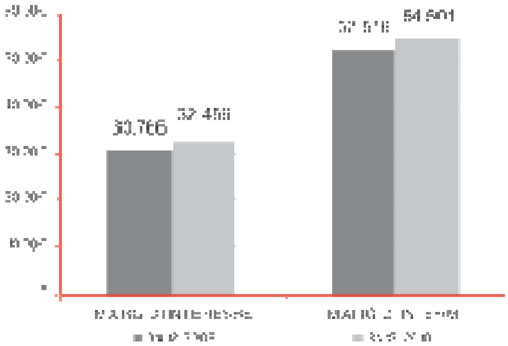
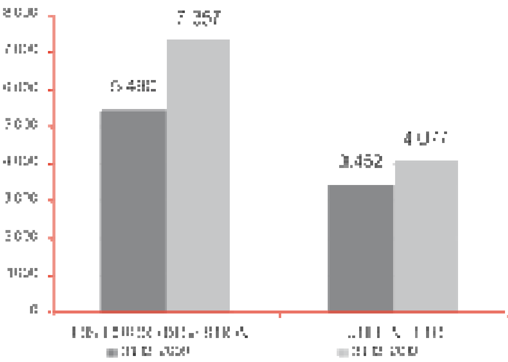
Figure 10 – Trends for Interest Margins and Brokerage (in 1000s of Euros)



"MARG. DI INTERESSE" = "INTEREST MARG."
"MARG. DI INTERM." = "BROKERAGE MARG."

- **The gross operating income** that, due to the dynamic effects described earlier, is circa EUR 7.4 million, up 34% on 2009.

Figure 11 – Trends for net income and operational income



"RIS. LORDO DI GESTIONE" = "GROSS OP. INCOME"
"UTILE NETTO" = "NET INCOME"

- The **profit before tax** reached EUR 6.6 million (9.2%), contributors to which also include: a negative balance in the Net provisions for risks and charges item amounting to approximately EUR -349 000, The Profits / losses from investments, which came to EUR -348 000, the Profits / losses from sale of investments amounting to EUR -48 000.
- The **net income**, which after taxes of about EUR 2.5 million, amounts to EUR 4.08 million, an increase of 18.1% with respect to the previous financial year.

PROPERTY AND INVESTMENTS

Investments in tangible assets of the Bank, before amortization, totalled EUR 77.1 million (EUR 76.3 million in 2009), an increase of 1.05%. During the year, there were no acquisitions of non-instrumental property, or property for use by branches.

With regard to investments in the current period there have been no acquisitions or disposals.

The subsidiary DéToschiSpA closed the year's accounts, prepared in accordance with international accounting standards (IAS / IFRS), on 31st December, 2010 with a profit of EUR 86 631, after detecting current tax of EUR 85 870. During 2010, the company, in the pursuit of its statutory objectives, acquired, at auction in July, an unfinished property consisting of ten apartments in TavernelleCalderara. The property, which became available a few months ago following the issuance of the decree for the allocation occurred only in January 2011, is the subject of interest from potential buyers. During the year the company has not acquired other portions of buildings and / or appliances. It has continued to manage the preparatory processes required for the refurbishment of the entire building in Piazza Minghetti, awarding contracts for refurbishment, which activities are expected to conclude in the second half of 2012.

PomodoroViaggiS.r.l., a subsidiary that carries out activities in the tourism sector, has also ended the year 2010 with a loss of EUR 227 164 according to the accounts produced in accordance with the national accounting standards referred to in Legislative Decree 127/1991. During 2010, the group manager after fully settling the loss last year, recorded their reflections in their income statement, and has initiated a major restructuring of the company. This involved redefining the management aims, closing the agency located in Bologna on the Piazza Liber Paradisus, and completing, at the end of October 2010, the sale of the company "Travel & Business" to the American Express Corporate Travel Uvet S.pa. in Milan, itself already a trading partner with PomodoroViaggiS.r.l. The announced temporary layoffs have been extended for the full year 2010 to all staff with a conventional term up to 28thFebrurary, 2011.

PARTNERS AND SHAREHOLDERS

At December 31, 2010, the Bank's capital, subscribed and paid up to EUR 49 517 389, consists of 958,896 ordinary shares of nominal value EUR 51.64 each. There are no shares issued and not been released at this date, while there are 33 375 additional shares repurchased under the provisions of art. 20 "Capital" of the Statute and Article 2529 Civil Code, for an amount of EUR 1 723 485.

The Bank continued to strengthen its social base, rising from 6 606 members on 31st December 2009, to 6 976 at the end of 2010, despite a slight decline in total capital invested (-2.52%), which fell from EUR 50.8 million at the end of 2009, to EUR 49.5 million on 31stDecember 2010.

The results obtained allow the Bank to pay its shareholders a yield of 2% in total capital invested in shares, distributed equally between dividends and appreciation.

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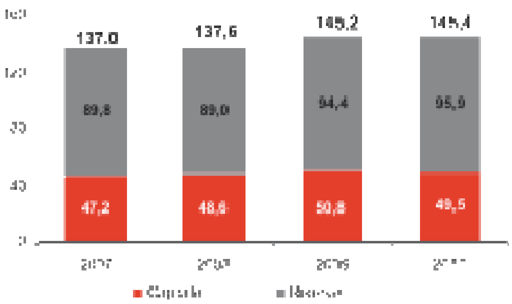
Based on the proposed allocation of the profits that will be presented at the Shareholders' Meeting, the net assets of the Bank in 2011 could reach the threshold of EUR 145.5 million. It maintains high levels of margin (Table 7), which the Bank manages with regard to the minimum requirements of the supervisory board (6% Tier 1 Capital Ratio, and 8% for the total capital ratio, shown in greater detail in the Supplementary Notes), for evidence of an adequate capital to support the development of the Bank and a surplus of 45.4% of equity above that required by current regulations.

Table 7 – MINIMUM REQUIREMENTS AND ASSETS (in thousands of euros)

Tier	2010
	138 107
Regulatory capital	142 497
Prudential requirements	77 802
Excess	64 695
Tier 1 Capital Ratio	14.20%
Total Capital Ratio	14.65%

As expected, the Bank's shareholders on 31/12/2010 number 6 976, up 5.6% due to the "open door" policy, which this year has allowed for the admission of 574 new members. Members have maintained a privileged position in development of the Bank's policies, which has made considerable efforts in order to continue to provide those benefits in the future, not only in finance. The Bank, to aims to fulfil its mutual ownership obligations, (in accordance with the provisions of article. 2412 of the Commercial Code), has provided support to owners necessary for the conduct of their activities, performing all the operations and the banking and financial services in compliance with the provisions of the law.
The Board of Directors, for the admission of new members, has followed the policy of territorial jurisdiction of management of people applying for admission.

Figure 12 – Shareholder's equity (after allocation; millions of Euros)



"Capitale" = "Capital"
"Riserve" = "Reserve"

PRODUCTS, SERVICES AND SALES CHANNELS

Many are the initiatives with which the bank wanted to pay attention to their customers, rewarding those who, being satisfied with our services, have presented new customers (customer assets), or through special products for children (e.g. savings passbooks for children). In 2010 the bank continued its commitment in support of its territory, witnessed the promulgation of the agreement signed April 21, 2009, in delicate economic times, with our Table for the preservation of productive assets, together with other local banks, trade unions CGIL, CISL and UIL and UGL, INPS under the direction of Bologna and Imola. The Protocol has ensured, at no cost to employees of companies in difficulty, requiring the activation of social safety nets, the advance of the ordinary and extraordinary layoffs funds. Throughout the year, this agreement has provided support to employees of 12 companies, with total advances of EUR 123 400.
We believe the successful results of our customer satisfaction survey carried out during 2010, is an incentive for the bank to continue with the defined strategies that aim to provide quality services and satisfaction to our customers. To support businesses in our area, have been renewed cooperative agreements with the guarantee referred to by SMEs in all sectors of the economy of our territory. In addition, two funds have been set aside for special-interest loans, investments, production, investment and energy programs, and commercial capitalization of manufacturing SMEs in Bologna. The funds have a total of 20 million euros and are intended for businesses and members of CNA Unindustria, providing support to guarantee Unifidi Emilia-Romagna and Fidindustria Emilia-Romagna. In order to facilitate and enhance access to credit to support SMEs, the bank has joined the Central Fund, which will co-guarantee loan consortia to help raise the percentage of a guarantee and bear most of the cost thereof. In order to assist companies that invest in the "green economy", special financing that allows businesses to build their own photovoltaic energy production has finally been enabled. This can be repaid either by self-consumption, or sale of the surplus energy to the Energy Services Manager. Finally, we recall the adhesion to the anti-crisis accord of the Emilia-Romagna region, the membership of the ABI moratorium on non-concessional financing, and the ABI moratorium on short-term loans.

SOCIAL RESPONSIBILITY
Deserving of attention are the social and cultural activities promoted in 2010, including the Bank's participation in the restoration of the Basilica of San Petronio, which has a four-year commitment to the completion of the new home for the Primo Levi University for the elderly.

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With regard to charitable commitments, a check for EUR 12 000 was handed to Paul Mengoli, director of Caritas in Bologna, to be allocated to the financial support of individuals and families in need. The figure was collected with the contribution of all employees of the Bank. An additional allowance of EUR 3 000 was donated to the Cicetekelo Association, promoting a project to provide practical support to street children in Zambia. The Bank supports a contribution to the association "We for You", made by employees of the Banking Group, which has committed itself in 2010 with numerous charitable activities such as support for the Cicetekelo project, the Reability project (health care infrastructure for refugees in Thailand and Burma), the collection of clothes and toys for the children of some family homes in Bologna, help for little Adharsh (a "distance adopted" Indian child) and help for the family of 5-year-old Maximilian, contributing to medical expenses for treatment to which the child is subjected.

INTERNAL ORGANISATION
2010 saw the completion of several activities to adapt operational processes and procedures to the new regulations (transparency, anti-usury, Payment Services Directive, ABI family accord on suspension of instalments for households in difficulty, extending the ABI for the suspension of debts of SMEs to the banking system, the second ABI - CDP convention for the granting of loans to SMEs). With regard to the efficiency of operational processes, the outsourcing of back-office fund / Sicav in Caricese was completed, while in other projects, such as the segmentation process of credit appraisal, integrated management and semi-automation for setting up multiple products and services (current account, online banking, ATMs and securities portfolios) for customers, and activating a powerful platform for online trading.
For the IS and New Technologies policies, projects have been prioritised and completed with the goals of

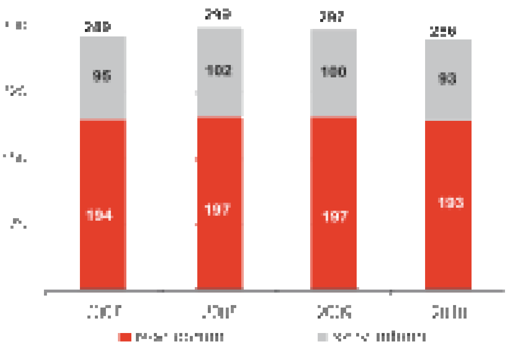
increased infrastructural efficiency, cost reduction and process innovations. In particular:

- The inauguration of an integrated fax (both incoming and outgoing), and SMS system, which operates via an intranet portal and supports automatic distribution and archiving;
- New VOIP services integrated, evolved from the Blackberry/BES platform to assist with mobile communications;
- Improvements to the networking infrastructure, increasing the number of branches connected via fibre-optic cables (for greater reliability and speed);
- As a result of our software and Open Source platforms strategy, a new Help Desk management system has been implemented (currently internal to the Information Systems department), as well as a new automated software distribution system.
- The IT Security Assessment project, involving revisions and security monitoring, has been completed, with the goal of obtaining a full analysis of the information systems and telecommunications infrastructure.
- The internal firewall systems have been reviewed; improved email anti-spam systems implemented, as has the VPN ("Virtual Private Network" for remote connections).

In the month of September, the Board of Directors was presented with an inspection report from the Bank of Italy covering the inspection performed by the supervisory board between April and June 2010. The Board of Directions expressed satisfaction on the outcome of the inspection.

HUMAN RESOURCES
The staff of the Bank at 31st December, 2010 numbered 286 employees; weighted average values for the days of attendance, the staff in 2010 was 288 units compared to 300.5 for 2009. The average age of staff is 37 years. 68% of employees are engaged in the commercial network, while 32% in internal services. To these employees we add the network of financial advisors: to 31st December, 2010, these numbered 20 agents. This year, the Bank has implemented a training plan involving nearly 265 employees for a total of 12 165 hours. The month of July saw the inauguration of the new communication tool,named "BBcomunicare", which represents a commitment by the Bank to communication on all levels, built not only from past experiences, but also future potential.

Figure 13 – Number of employees at year-end



"Rete comm." = "Commercial network"
"Serv. Interni" = "Internal services"

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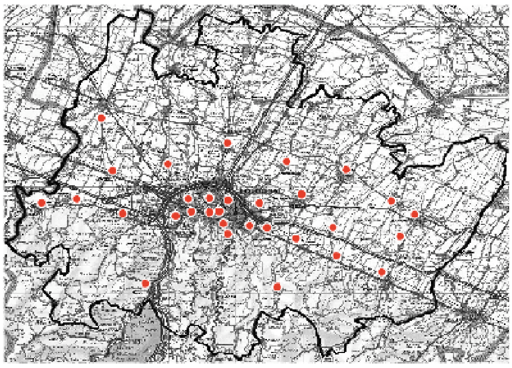
The branches in the Bank's territory are illustrated in the following map.



"Filiali" = "Branches"

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE YEAR
On 11th January 2011, the Bank, together with the Cassa di Risparmio di Bologna, and the FondazioneCassa di Risparmio di Bologna, signed an accord with the council of Bologna, which has the goal of giving the community a refurbished Piazza Minghetti and Piazza del Francia—work for which should begin during 2011.
In February 2011, with the aim of contributing to the rescue of the city's football team (Bologna FC 1909), the Board of Directors determined a financial contribution in favour of the association created by the fan club, businesses, artisans and professionals for this purpose.
On 23rd March 2011, the ratings agency Standard & Poor's, after analysis of the Bank's conduct, has assigned the bank the investment rating shown in Table 8. Given the notable worsening of the banking environment, the result obtained is considered satisfactory.

Table 8 – BANK OF BOLOGNA RATING

Rating Agency	Standard & Poor's
Short-term rating[6]	A-3
Long-term rating[7]	BBB-
Outlook	Stable
Rating date	23rd March 2011

1 Ability to repay loans of duration less than 1 year (A-1: best rating – D: worst rating.)
7 Referring to loans longer than 1 year in duration, indicates the ability to repay interest and capital, together with any exposure to unfavourable changes in circumstances or in the economic environment (AAA: best rating – D: worst rating.)

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BUSINESS OUTLOOK
The macroeconomic environment shows signs of modest growth, threatened by various factors such as critical, geopolitical tensions, the crisis of public finances in some countries of the Eurozone, the increase in oil prices, and inflation.
In this context, the path of economic recovery is expected to be slow, along with the recovery of profitability in the banking sector. Banks will be faced with the need to re-structure of loans, and greater competition in various fundraising markets, modulated by new and more stringent prudential requirements of

capital and liquidity requirements from Basel III. The competition in retail banking will result in an increase in the average cost of collection and therefore a penalty on the evolution of margins already under pressure from low interest rates. The changes in adjustments on receivables are expected to slow down, but likely to maintain values much above pre-crisis levels.
At the local level, the situation remains bleak, requiring a great entrepreneurial ability to adapt to rapidly changing competitive conditions, testing the stresses of industrial and social systems in the territory.
Despite this context, which remains a complex one for the banking sector, where the elements of uncertainty make predictions about expected future results extremely difficult, the Bank has approved, in the month of February, the budget for the year 2011 that includes targets for increased sales, productivity and efficiency, combined with others for containment of the main critical factors such as credit risk and liquidity.

RELATIONS WITH COMPANIES OR ORGANIZATIONS THAT PERFORM MANAGEMENT AND COORDINATION SERVICES

The Bank of Bologna is not subject to any company or entity that exercises management and coordination, therefore detailed information required by law are not given in this report.

PROJECTED ALLOCATION OF PROFITS

In compliance with Article 37 of Legislative Decree dated 1st September, 1993, n. 385, and with Article 49 of the Social Statute, the projected allocation of net profits from financial year 2010 is as follows:

–	To legal reserves (Art. 12, Law 904/77)	2 855 582
–	To "Other reserves: reserve for purchasing shares"	80 000
Residual		
–	To the mutual Fund for Promotion and Development of Cooperation (Art. 11, Law 31/Jan/1992, n.59 and subsequent amendments: 3% of net annual profit.	122 307
–	actions due to be equal to 1% of the capital paid	509 501
–	to increased free capital actually paid, by reason of 1% (art. 7 Law No. 59 31/Jan/92)	509 501
TOTAL		4 076 891

We also propose to set aside a legal reserve in the sum of 3,632 euros, from the 2005 financial year's residual dividends not claimed by shareholders.

pp. The Board of Directors
President
Marco Vacchi