

MANAGEMENT REPORT

REFERENCE FRAMEWORK

THE ECONOMIC AND FINANCIAL SITUATION

During the second half of 2011, the prospects for economic recovery weakened further. In particular, the overall framework was negatively affected by the worsening growth rates regarding orders and production activities in emerging economies as well as by the spreading of the sovereign debt crisis in Europe, which heightened the feeling of uncertainty among financial operators.

Overall the world GDP should slow down in 2011, though not fall drastically. According to an initial estimate by the IMF, it should record +3.8% against +5.2% in 2010.

In the Euro zone, the suddenly shrinking growth prospects, the worsening of the Greek crisis, which also involved the private sector in the solution strategy, and the governance problems experienced by Europe in dealing with the crisis, have driven instability in the financial markets with repercussions on sovereign debt bonds in a growing number of countries, even affecting the subscription ability and the ratings of banks.

The ECB eased monetary conditions and provided liquidity to the banking system, taking the rate on the main refinancing operations to 1%, with a 50 point reduction between November and December, and introducing new important liquidity support measures, such as the 36 month refinancing operation performed on 21 December, the expansion of the range of assets accepted as collateral, the halving of the minimum reserve coefficient.

After the slowdown recorded in the first two quarters of 2011, the US economy ended the year showing signs of recovery, with forecasts for the fourth quarter on an annual basis, of a GDP growth equalling 2.7%.

The economies of the BRIC countries (Brazil, Russia, India and China) are slowing down, though relatively. **China's GDP** grew by 9.3% against the 10.4% average of 2010. Even more noticeable is the slowdown in **India**, where in the third quarter of 2011 an annual growth of 6.7% was recorded, compared to the +10% growth of the previous year. In **Brazil** the slowdown is intensifying, with GDP growing by +2.1% on an annual basis in the third quarter of 2011, compared to the +7.6% average of 2010. Russia, on the other hand, continues to report good growth rates. In the third quarter of 2011, GDP grew by +4.8%, compared to the +4.0% of the previous quarter and the +4% average of 2010.

The economic downturn in the Euro Area intensified in the fourth quarter of 2011. The first overall indications of the IMF show the GDP of the Euro Area growing at 1.6% against 1.9% of 2010.

According to data published by the Bank of Italy (The Italian economy in brief, February 2012), Italy's GDP decreased on an annual basis, in the third quarter of 2011 by 0.7% and in the fourth quarter by 2.6%, with the growth rate for the year standing at +0.4% against +1.8%

in 2010. All the components of demand are down except the commercial balance. The data relating to December 2011, compared to the previous month, shows a rise of unemployment to 8.9% (8.8% in November). The trend of the harmonised consumer index (IPCA) rose from +1.9% in January to +3.7% in December, with an average increase of 2.9% compared to +1.6% in 2010.

The Italian sovereign debt crisis bottomed out starting from the summer of 2011. On the night of 20 September 2011, the rating agency Standard & Poor's announced the decision to cut the level of reliability on the Italian public debt, with negative future prospects, due to "the government's limited ability to respond" to the current crisis.

Last November, the differential between the yield of the ten-year BTP treasury bonds and that of the similar German bonds had reached the peak of 550 basis points. In response to the financial turbulence that has hit Italy, the government in office launched three corrective manoeuvres between July and December, with the aim of achieving a primary advancement in 2013 to the tune of 5% of GDP and a drop in the debt to GDP ratio.

THE ITALIAN BANKING SYSTEM

The Italian banks deemed sound were particularly penalised by the tension on public debt. As a matter of fact, since last summer the wholesale funding conditions for Italian banks and the banks of other countries exposed to the tensions have suddenly worsened, whose credit standing was compared to those of the respective sovereign states. Subscriptions of commercial paper by US money-market funds have basically zeroed and the unsecured bond collection has dried up.

When analysing the flows of assets and liabilities recorded in 2011 by Italian banks, according to the figures presented by ABI in February 2012, it is clear how the system's liquidity had been guaranteed by the refinancing at ECB level, which, with almost 160 billion euros, accounted for more than 70% of the total of new resources obtained; on the other hand, the direct deposit flows from deposits and bonds, equalling about 24 billion euros (130 in 2010), represented just 11% of the resources acquired by the banks. As mentioned, the stress on the Italian sovereign debt caused a significant reduction in foreign subscriptions (-21%) with resources decreasing by around 50 billion euros. Worth adding is that 31 billion euros, equal to 14% of the total flow of the 2011 funding, were required and used to increase the capital endowment in order to comply to the ever stricter prudential legislation. Concerning the use of the resources obtained, about 45 billion euros were used to finance the real economy, equally distributed among families and companies, and almost 25 billion euros, 16 of which related to government bonds, to increase the security portfolio (net of the purchase of bank bonds).

The funding trend (funding in Euros) of the Italian banking system, though slower than in the previous year, remains positive and ended 2011 with a 1.3% growth against +3.3% in 2010. Looking at the various components, deposits from resident clients (c/a deposits,

deposits with agreed maturity, deposits redeemable at notice and repurchase agreements) recorded a drop of 2.8%, while the annual variation of bank bonds is +8.4% (including subordinated liabilities) . A significant drop was recorded in repurchase agreements with clients, -39%. The average rate of return on bank deposits remained virtually unchanged for 2011, and closed the year at 1.99% against 1.50% in December 2010 (+49 basis points).

Bank loans (to the private sector: non-financial companies, consuming and producing households, non-profit institutions, other financial institutions, insurance companies and pension funds) followed a positive trend, which slowed down in the last quarter of the year in particular, standing at +1.8% at the end of 2011 (+4.2% in December 2010). Loans to families and non-financial companies grew by 3.6% (3.7% in 2010), due to a 5.4% increase in short-term loans (within the year) and a +3% increase in loans due after the year. Compared to +1.4%, at the end of 2010, the performance of loans to enterprises, though slowing down, improved and recorded +3.1%. The trend of loans to households also dropped, which at the end of 2011 stood at +4.3% (+7.7% at year end 2010). Basically in line was the growth in loans for the purchase of properties, +4.4% (+8.3% at the end of 2010). In December 2011, the weighted average rate of loans to household and non-financial companies equalled 4.23% (+61 basis points on the rate of 12 months prior). The greatest increases (+139 basis points at December 2010) were recorded in the rates of new loans to non-financial companies, which closed 2011 at + 4.18%.

The banking spread, meaning the differential between the average rate on loans and the average rate on the household and non-financial company deposits was 2.24% in December 2011, +12 basis points compared to December 2010, while in terms of annual average, it stood at 2.17%, without any substantial variation compared to 2.16% of the previous year.

Worth highlighting, also in 2011, is the marked deterioration of the quality of banking assets, as the main effect of the long negative economic cycle and the new worsening of the economic framework. At the end of 2011, non-performing loans gross of write-downs exceeded 107 billion euros, almost 30 billion euros more compared to December 2010 (although almost half of this increase is due to transactions made by some banking groups as part of new corporate structures). The ratio between gross non-performing loans and loans reached 5.52%, while the one between net non-performing loans and total loans was 3.14%.

2011 was an especially negative year in terms of stock market performance of banking stocks. The FTSE Banks showed a performance of -46.7% year on year. The capitalisation of the banking sector decreased by about 86.7 billion euros since the end of 2010, taking the incidence of the sector on the total capitalisation to 16.7%, against 29.8% of September 2007, when the financial crisis began.

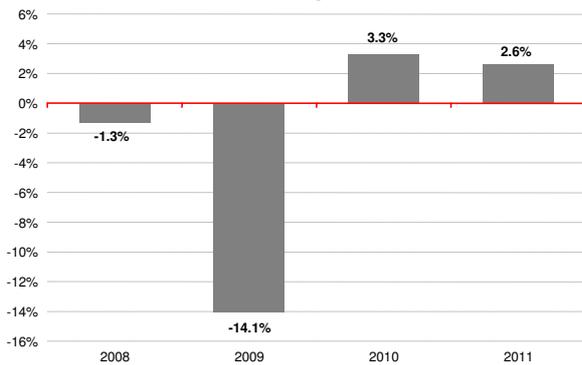
THE LOCAL ECONOMY

According to the latest data provided by Unioncamere Emilia-Romagna, in 2011 the growth of the regional GDP should stand at around 0.7% against 1.7% in 2010. For Emilia-Romagna 2011 was a year featuring contrasting and conflicting trends, starting from the strengthening of the recovery in 2010, which led to notable growth in the first part of the year, followed by signals of a slowdown, though still positive in figures, ending with the inversion of the trend in the last part of the year. Some figures show a regional economy which reacted to the crisis of the recent years by regaining some of the ground lost. Worth mentioning in particular is an impressive manufacturing trend driven by the recovery of foreign commerce; good news also arrives from the agriculture segment, closing the year up along with tourism, even though with swinging situations. Instead, other data portrays a reality which is unable to restart, as is the case for building companies, small commercial enterprises and artisan companies. Finally, other data shows a change in trend in the last few months of the year.

Concerning credit, a slowdown was seen in the growth of loans especially due to the less dynamic credit to companies. Credit quality has deteriorated further. The incidence of the new non-performing loans was higher for companies, above all those which work in the construction industry. Bank deposits for consumer households and companies re-stagnated at the same levels of a year before. After a lengthy period of expansion, the development of the bank teller network stopped. Tellers went from 3,541 in June 2010 to 3,593 in March 2011, and 3,523 in June 2011. In any case, Emilia Romagna continues to rank second, after Trentino-Alto Adige, for the number of tellers per inhabitants, with 79 tellers per 100,000 inhabitants (June 2011). The number of banking companies located in the region continues to decrease, though slowly, falling from 71 in March 1996 to 54 in June 2011.

The evolution of the production system of Emilia Romagna inevitably reflects on the trend of the Bologna's economy. Also in this case, between June and September, contrasting indications were recorded. If at the end of September, Bologna (on the provinces of the region) continues to present one of the best rates for production variation and orders, confirming that the new slowdown underway has not negatively affected its productive sphere yet, the rank inverts when considering to turnover and exports. On an annual basis, the industrial production of the province of Bologna recorded an average growth of 2.6%, down compared to 3.3% in 2010.

Figure 1 – Industrial production trend in the Province of Bologna
(Source: Unioncamere Emilia-Romagna)



MANAGEMENT REPORT

NOTE

In an economic-financial context that has drastically worsened, especially in the second half of the year, and which features various elements of tensions, such as high volatility in the markets, the collapse of the climate of trust for companies, consumers and financial operators, the sovereign debt crisis, the tightening of fiscal pressure and the contraction of productivity and wealth indicators, the Italian banking system has had to face the collateral effects. Worth remembering in particular are the structural liquidity crisis, softened only thanks to the measures implemented by the ECB, the notable increase in the cost of funding and the consequent negative impacts on the interest margin, the additional deterioration of the quality of credit with the persisting high levels of net rectifications on credit. Within this particularly complex and penalising scenario, the ability of the banking system to generate profits, especially for the most “traditional” credit institutes whose business model is mainly based on brokerage with clients, was significantly affected. The difficulties the system faces on the revenues side, also due to the unshared legislation limitations to the detriment of the individual entrepreneurial valuations, has placed more emphasis on optimising operating costs.

Despite this difficult context, the Bank has continued to support local social-economic situations, focusing on new credit to businesses and households for about 200 million euros. Furthermore, the overall results obtained in this complex context of generalised crisis are summarised in the tables and graphs below and should offer some comfort.

Of particular note are:

- the increase in the bank’s assets (total assets +2.5%);
- the growth in deposits from ordinary clientele (+3.6%), a source of liquidity that is more stable than other sources and therefore better suited to support a healthy and prudent business development;
- the indirect funding portfolio is in line with market values (-0.6%), despite the notable depreciation suffered by the financial instruments during 2011. The result is due to a considerable growth in the managed funds when valued at book value;
- the increase in productivity per employee (administered funds/avg. employees and gross banking product/avg. employees);
- the improved operating efficiency measured via cost/income, which dropped from 68.8% in 2010 to the current 67.6%, as a consequence of a cost cutting strategy;
- the quality of the credit portfolio which, despite the situation, deteriorated notably less than the figure of the banking system also in our reference market

(province of Bologna), maintaining the benchmarks at comfortable levels, as shown in figure 9 within the paragraph on loans to customers;

- the improvement of equity coefficients expressing less risky assets than in the past;
- the good performance of the “core” components of the income statement, with the year-on-year increase of the interest margins and the net commissions and the decrease of the operating costs as well as a gross management result exceeding the one in 2010.

QUOTIENTS AND INDEXES

	2010	2011
PROFITABILITY INDICATORS		
ROE	2.79%	1.80%
ROA	0.42%	0.41%
Brokerage margin / assets	3.08%	3.08%
PRODUCTIVITY AND STRUCTURAL INDICATORS		
Leverage	12.1	13.3
Earnings / Management results	55.4%	32.6%
Cost / Income	68.8%	67.6%
Gross Banking Product / avg. employees (mil.)	12.6	13.1
Admin. costs / avg. employees (000)	189.2	189.8
Operating costs / avg. employees (000)	-130.1	-128.4
EQUITY INDICATORS¹		
Tier 1 Ratio	10.65%	11.08%
Total Capital Ratio	10.99%	11.48%
CREDIT QUALITY INDICATORS		
Run-off rate	1.42%	0.83%
Gross non-performing loans / loans to customers	1.65%	2.04%
Net non-performing loans / loans to customers	0.80%	0.98%
Credit / customer deposit adjustments Dec. n.y	-0.75%	-0.65%

KEY DATA

The most representative data of the Financial Statements as at 31 December 2011, which is commented on in the respective sections, is summarised in Tables 1 and 2.

Table 1 - BALANCE SHEET - Main items (Amounts in thousands of euros)

	2010	2011	Var. %
Balance sheet total	1,768,009	1,812,920	2.5%
Receivables from customers	1,414,472	1,382,940	-2.2%
Security portfolio	206,511	249,830	21.0%
Direct deposits	1,310,112	1,357,215	3.6%
Indirect deposits	885,354	880,353	-0.6%
Managed funds	2,195,465	2,237,567	1.9%
Regulatory capital	142,497	142,747	0.2%

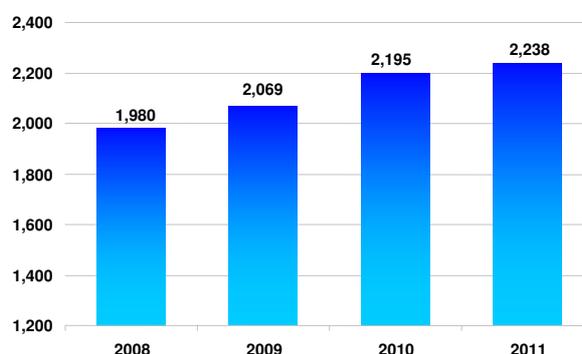
Table 2 - RECLASSIFIED INCOME STATEMENT (Amounts in thousands of euros)

	2010	2011	Var. %
INTEREST MARGIN	32,456	33,831	4.2%
Net commissions	16,660	16,994	2.0%
Result from trading, hedg. and fair val.	2,579	-415	-116.1%
Other management charges /income	2,807	2,545	-9.3%
BROK. MARGIN	54,502	52,955	-2.8%
Net imp./write backs: rec. and fin. tr.	-9,671	-9,663	-0.1%
NET PROFIT (LOSS) FROM FIN. OP..	44,831	43,292	-3.4%
Operating costs	-37,473	-35,810	-4.4%
GROSS PROFIT (LOSS) FROM OP.	7,358	7,482	1.7%
net all. to prov. for risks and charges	-349	-1,127	222.9%
Profit (loss) from investments	-348	-380	9.2%
Goodwill adjustment	0	-210	0.0%
Profit (loss) from transfer of investments	-48	-1	-97.9%
GROSS PROFIT (LOSS)	6,613	5,764	-12.8%
Income tax	-2,536	-3,322	31.0%
NET PROFIT (LOSS)	4,077	2,442	-40.1%

ADMINISTERED VALUES

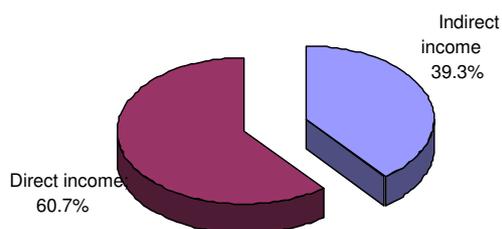
Figure 2 - Trend of values administered on behalf of customers

(Amounts in millions of euros)



¹ The balance sheet indicators reported are calculated for internal management purposes according to the more restrictive criteria set by the Bank of Italy for banks not belonging to groups, which, as such, do not benefit from the favourable reduction of the asset requirements which was instead applied to determine the data shown in table 7 and in the supplementary notes.

Figure 3 – Breakdown of administered funds



The administered values in 2011, valued at market prices, stand at 2.238 billion euros, with an increase of 1.9% over the previous year. When analysing the trend of the individual components of the administered values, it is clear that this increase is supported by the performance of the direct income from customers, which rose by 3.6% on the data of the end of the period. In light of the trends recorded by the main share and bond markets (FTSE mib -24% y/y, DJ Euro Stoxx -12.5% y/y, S&P's 500 +0.2%), the overall result of the indirect income valued at market prices (-0.6%) over the 2010 volumes is deemed satisfactory.

DIRECT INCOME

At 31/12/2011 the book stock subscribed by customers stood at 1.357 billion Euros, up by 3.6% over 2010. This amount of deposits includes “special” entries included in under item 20 of the liabilities of the Balance Sheet (Payables to customers), like the loans from Deposits and Loans Fund and its operation with the Compensation and Guarantee Fund for NewMic operations, whose value is included in the item “Other deposits” in Table 3. The growth of the “core” part of the deposits from customers stood at +3.2% (Table 3) at the end of 2011.

Table 3 - DIRECT INCOME (accounting figures, in thousands of euros)

	2010	2011	Chg. %
Taxable accounts	636,986	671,400	5.4%
Savings deposits	53,580	89,536	67.1%
Deposit certificates	154,125	109,412	-29.0%
Bonds	419,919	437,494	4.2%
Repo-terms	4,873	1,601	-67.2%
Currency income	4,063	4,343	6.9%
Direct Income	1,273,545	1,313,785	3.2%
Other income	36,566	43,429	18.8%
Income from clients	1,310,112	1,357,215	3.6%

Analysing the short and medium-term sources of income, it can be noted that in the short-term, there are two opposing trends. On the one side, the growth in “deposits” (current accounts, savings deposits and deposit certificates at +3%) and on the other, though with different volumes, the contraction of the repo-terms (-67%), while on the medium long-term, represented by the bond of the bank, an increase is recorded of 4.2% over

2010. The increase in deposits obtained through the placement at retail clients of the bonds of the bank should be considered positive in terms of both the stability of the underlying liquidity and the ever greater appeal that the various forms of short term and unlimited savings have on clients who these days are more sensitive to the credit and liquidity risk.

Figure 4 – Trends in customer deposits

(Amounts in millions of euros)

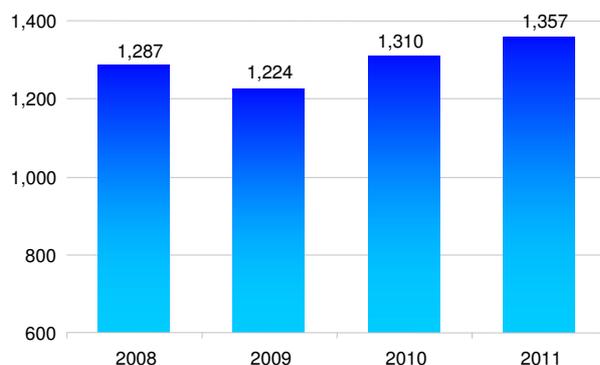
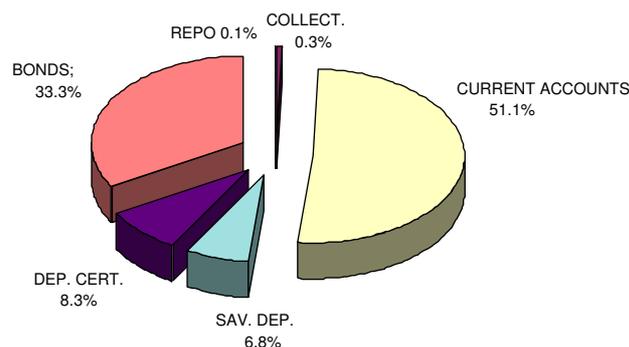


Figure 5 – Breakdown of direct income (values at the end of the period)



INDIRECT INCOME

At the end of 2011, the volumes of indirect income at market values stood at about 880 million euros (Table 4), signalling a slight drop (-0.6%) on the market values at the end of the previous year. Within this aggregate, two separate trends can be spotted. The first is the considerable growth of the administered component (+7.6%), particularly in the bond component driven by the purchase of Italian government bonds at the end of the year, which closed the period with brokered assets equalling around 560 million euros, countered by a notable decrease in the managed segment (-12.3%), which stands at 319 million euros, with a similar performance expressed by the individual asset management of the Bank (-12.2%) and the SICAV and common funds (-12.5%), which as at 31 December presented managed assets of 140 and 172 million euros respectively.

Table 4 - INDIRECT INCOME avg. (amounts in thousands of euros in December)

	2010	2011	Chg. %
Securities management ²	521,755	561,303	+7.6%
Asset management ³	363,599	319,050	-12.3%
	885,354	880,353	-0.6%

Figure 6 - Indirect income trends (amounts in millions of euros)

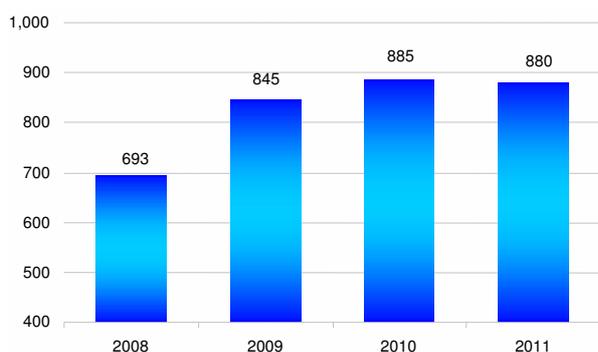
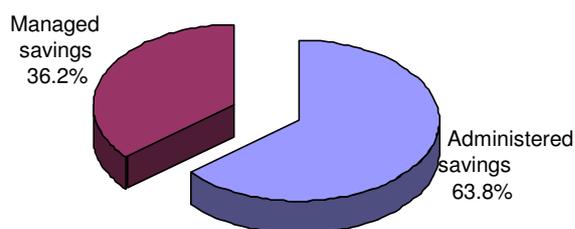


Figure 7 - BREAKDOWN OF INDIRECT INCOME



At the end of the year, the Individual Asset Management service recorded managed assets of 140.4 million euros (160.3 million euros in 2010).

The drop in managed assets is due to the general aversion to risk of investors, which made them cash in their investments (totally or partially), thus reducing the managed funds.

The difficult conditions of the stock and bond market (in particular the government debt issued by Mediterranean countries in the “euro zone”) did not prevent a careful and accurate monitoring of risk, which allowed us, in association with a broad diversification of the investment areas and types, to limit the negative swings thus minimising the erosion of the value of the assets.

SECURITISATIONS

In 2010, the bank continued the securitisation

² Excludes the bonds issued by Banca di Bologna.

³ Includes funds and insurance products, does not include the balance of current accounts bearing securities, direct deposits included in the balance

restructuring process started in April 2006, as it had in fact exhausted its ability to generate funds. The new operation is a so-called “self-securitisation” and 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. The current operation called “Felsina 2” has seen the Bank enter into a contract for the sale⁴ without recourse of monetary claims, prepared pursuant to and for the purposes referred to in conjunction with Articles 1 and 4 of Banking Law no. 130 of 30 April 1999 and art. 58 of the Banking Law, of a portfolio of performing mortgage loans purchased from the vehicle. This portfolio, selected on the valuation date of 31 January 2010, consisted of 2,639 performing mortgage loans, of which 84.5% were residential and 15.5% commercial, for a total amount of 247,178,922.49 euros, of which 158,408,642.07 euros at a variable rate and 88,770,280.42 euros at a fixed rate.

To finance the purchase of this portfolio, on 27 May 2010 the Felsina Funding S.r.l. vehicle issued amortizing bonds maturing in December 2049, for a total of 247,150,000 euros, of which 217,000,000 Euros were class A (*Senior Notes*, 87.8%) and 30,150,000 euros 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. On 9 December 2011, following the downgradings made by the various rating agencies concerning the Italian government's credit, and as a consequence of the one of all the financial assets connected to Italy's country risk, the “Credit Watch” was reduced by S&P from “stable” to “negative” for ABS Class “A” bonds. No change in rating or Outlook was decided by Moody's during 2011.

The total credit enhancement starting level is 15.2% of the mortgage portfolio selected at the valuation date and is the sum of the value of the Class B securities (30,150,000 euros equal to 12.2% of the mortgage portfolio at the valuation date) and the Cash Reserve Initial amount, equal to 7,415,368 euros (3% of the mortgage portfolio at the valuation date). At 31 December 2011, the total credit enhancement, that in absolute value was not changed compared to the start, represents 20.7% of the existing capital at the same date.

The transaction is assisted by an interest rate risk hedging inherent in the loan portfolio transferred to the vehicle, through the use of a Swap structure.

On 21 December 2011, in correspondence with the settlement date, with 18 months having elapsed from the issue of the notes, the first tranche of amortisation of Class “A” ABS bonds (Senior Notes) took place, when Felsina Funding repaid the Senior Noteholders (Banca di Bologna) the capital amount collected on the mortgage portfolio from the start of the operation, for a total

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

amount of 62,438,174 euros closing Senior notes for an equal value. This repayment led, at the end of 2011, the existing senior notes to have a value of 154,561,826 euros.

The securitised portfolio existing at the end of 2011 features performing loan ratios (2,216) for a counter value of 181,581,344 million euros.

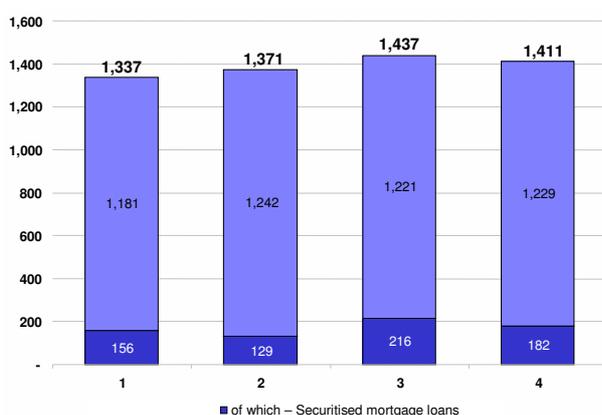
LOANS TO CUSTOMERS

At 31 December 2011, the loans to ordinary customers, net of the depreciation, stood at 1.411 billion euros, down by 1.8% on the figure at the end of 2010. In terms of annual average capital, an increase in loans is recorded equalling +3.3%.

Table 5 – LOANS TO CUSTOMERS (accounting figures, in thousands of euros)

	2010	2011	Chg. %
Current accounts	476,220	438,429	-7.9%
Portfolio discounts	8,706	8,014	-8.0%
Mortgages	906,639	919,154	1.4%
Non resident and currency borrowings	20,249	14,784	-27.0%
Non-performing items	23,740	28,754	21.1%
Loans	1,435,553	1,409,135	-1.8%
Other Loans	1,512	1,506	-0.5%
Loans to customers	1,437,065	1,410,640	-1.8%

Figure 8 – TREND AND BREAKDOWN OF LOANS TO CUSTOMERS (amounts in millions of euros)



An analysis of the loans in terms of duration reveals a drop in short-term loans to residents of 7.9% (Dec./Dec.), while there is rise of 1.4% in the component with medium and long-term maturities.

Looking at individual technical forms, the short-term elements show general decreased commitments for overdrafts on current accounts (-7.9%), the commercial portfolio (-8%) and funding towards foreign counterparts (-27%).

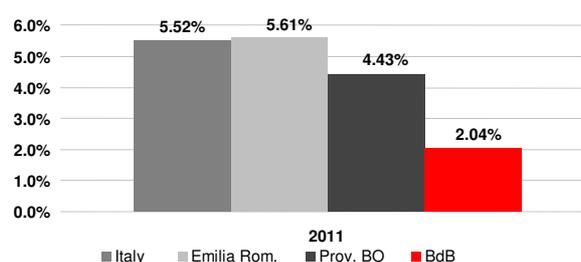
The trend of medium to long-term loans (+1.4%) was supported by about 200 million euros of new loans to

households and companies in a difficult context. During 2011, 55% of the loans disbursed went to the private segment, against 59% recorded in 2010, while 45% financed the corporate segment; in 2010 it was 41%. In 2011, 68% of the new disbursements is represented by mortgage borrowings (74% in 2010).

Committed credit facilities closed the year at 103 million euros, continuing the drop in place since 2008, though at decidedly lower rates. In 2011 the decrease was 1.9% against 6.6% in 2010.

The persistent economic-financial crisis and the weak economic framework have inevitably increased the number of agencies that 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". The situation described has had significant effects on the trend 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 by the impact of net impairment of receivables (income statement item 130.a) on total loans to customers of the previous year, that decreased from 0.75% last year to 0.65% in 2011. Other indicators of credit quality, such as the impact of gross and net non-performing loans on deposits (0.98% for Banca di Bologna against 3.14% for the Italian banking system), the impact of net non-performing loans on the regulatory capital (9.53% compared to 15.9% at national level, though improving over the previous year, stand at acceptable levels given the current social and economic context. Instead, they are much lower than the figures recorded by the banking system also in our reference market, as illustrated in graph 9.

Figure 9 – TRENDS OF THE NON-PERFORMING LOANS (Source: Bank of Italy and internal data)



Finally, Table 6 shows, with regard to the value of investments at end of 2011, the primary economic sectors served.

Table 6 – PRIMARY ECONOMIC SECTORS SERVED

Economic sector	Incl. % investments in economic sectors	
	2010	2011
Other sellable services	41.3%	36.5%
Construction and public works	16.4%	20.3%
Commercial services, recovery and repair	14.2%	13.2%
Agricultural products, forestry and fishing	3.7%	4.7%
Metal products excluding machinery and means of transport	5.0%	4.5%
Other branches	19.4%	20.8%

FINANCIAL MANAGEMENT

The result of the security portfolio, which on 31 December 2011 amounted to about 250 million euros, was affected by the high volatility concerning credit spread and the Italian government bodies in particular. The spread widening that has hit the latter, particularly during the second half of the year, has been the main cause of the losses recognized in equity reserve AFS (available for sale); in 2011 this generated a negative change in fair value (market value) of 14.8 million euros. At 31 December 2011, the total amount of the equity reserve was -21.0 million euros, before deferred tax.

The overall efficiency of the property portfolio was equal to 3.256%, compared with a yield of 2.085% in 2010, showing a positive margin of +2.077% on the notional cost of borrowing (Euribor 1m), compared to a V.A.R. (annual at 99%) that is set at 0.78% (0.68% at 31/12/2010).

The extraordinary income from financial transactions accrued during the year amounted to 667,000 euros, resulting from net trading income and gains on the entire portfolio of properties for 753,000 euros and losses on securities for 86,000 euros.

No loss was 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

Concerning the management, measurement and control of risks, Banca di Bologna has always been inspired by particularly prudent guidelines, which reflect a traditional tendency of the bank towards minimal risk-taking. The corporate philosophy of extreme focus on the identification and containment of risks testifies to the existence of an internal control system that pervasively and accurately oversees all the risks the Bank is exposed

to in running its business and the compliance with a structure of internal limits hinged on particularly conservative thresholds and more restrictive than the regulatory ones.

Purely by way of non limiting example, the Bank's internal limit system is extended transversally to all the segments that constitute the typical bank operations, to include the following risks:

- credit risk;
- counterparty risk;
- market risk;
- operating risk;
- concentration risk;
- interest rate risk;
- liquidity risk.

The Bank pays great attention to the regulatory fulfilments imposed by the Supervisory Bodies, while also being committed to constantly improving and refining the internal control system in order to maintain the organisational governance continuously suitable to its operations and the changing and difficult external macroeconomic context of the current historical phase.

For a detailed review of the risk profile of the Bank and the related management policies and coverage policies implemented on the individual risk types, please refer to Part E of the Notes.

FINANCIAL RESULTS

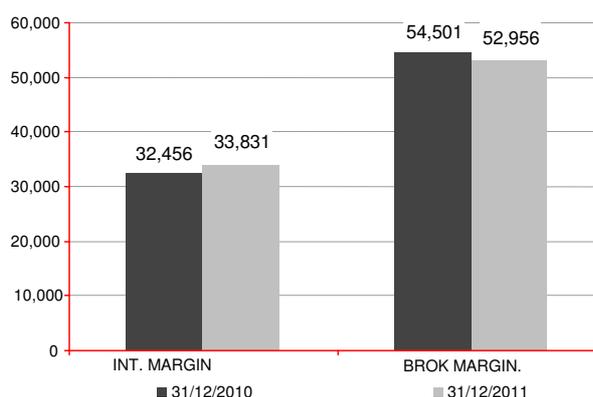
The Income Statement 2011 is presented below in its reclassified version (Table 2), which extracts from the operating costs the other management income/charges and the net allocations to the reserves for risks and charges, posting them under the brokerage margin and after the gross management result, respectively.

- The **interest margin** (+4.2%), equals 33.8 million euros compared to 32.5 in 2010. The aggregate recorded an increase in the commercial component linked to ordinary customers (+2.4%); this is a positive result when considering the notable increase in the cost of funding due to the tensions in the financial markets, a higher contribution of the financial component (coupon interest coming from the property portfolio) facilitated by the trend of the market rates (the average 1 month Euribor rose from 0.60% in 2010 to 1.21% in 2011), a substantial increase in financial charges due to the greater "institutional" funding.
- The **brokerage margin**, amounting to 53 million euros, was down by 2.8% over 2010. This result was obtained through the positive contribution of the interest margin and the net commissions (+2%) and the contribution reduction of financial management (-116%, results from negotiation, hedging and fair value) and the other management charges and income (-9.3%). The growth of net commissions was encouraged particularly by the banking services (+0.6%) and the lower commission charges (-9.6%), while the income on indirect deposits

remains substantially in line with the amount recorded in 2010 (-0.2%), a positive result given the serious tension in the markets. Regarding the item “other management charges and income”, particularly important are the various and considerable charges obtained on the initiative of the Warranty Provision of the Depositors of the Credit Cooperative Banks to which the bank defined as such are obliged to adhere. This obligatory contribution is requested by the Provision that supports some consortium banks in substantial difficulty or in compulsory administrative liquidation or in extraordinary administration and not under the direct support of the same depositors.

- The **Net result from Financial operations** equals 43.3 million euros, down by 1.5 million euros (-3.4%) compared to 2010, with net value adjustments (item 130 of the Income Statement) in line with the previous year (-0.08%), as a result of a stricter and more prudent policy in terms of allocations on credits, which within the difficult economic framework led to adjustments on credits for 9.4 million euros, equalling a cost of credit⁵ of 65 bps, lower than the 75 bps recorded in 2010.
- The **Operating costs** for the past year equalled 35.8 million euros, down by 4.4% compared to the previous year. Staff costs decreased by about 650,000 euros (-3.2%); the same trend for recorded for the other administrative costs, about -900,000 euros (-5.5%). The costs for the amortisation of tangible and intangible assets were also down (-15%). The good performance of operating costs allowed the cost/income ratio to drop from 68.8% in 2010 to the current 67.6%.

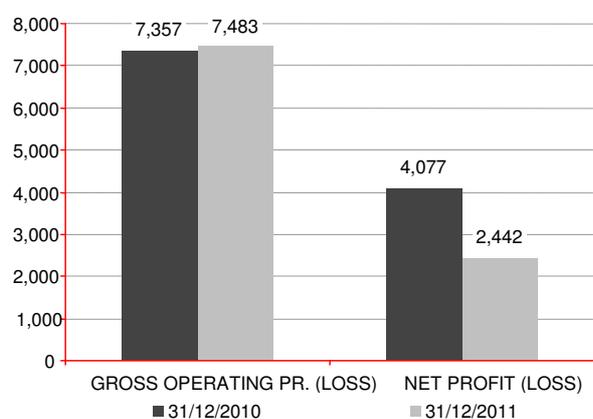
▪ **Figure 10 – Trends for interest and brokerage margins** (in thousands of euros)



- The **gross operating result**, due to the dynamics described above, is about 7.5 million euros, up 1.7% on 2010.

▪ **Figure 11 – Trends for net profit and management result**

▪ (Amounts in thousands of euros)



- The gross management result, when considering the net allocations for risks and charges (-1.1 million euros), the losses from investments (-380,000 euros) and the adjustment for goodwill (-210,000 euros), led to a profit before tax equal to 5.8 million euros, down by 12.8% over the previous year.
- After taxes for about 3.3 million euros (+31%), net profit equalled 2.4 million euros, down by 40% on 2010 (-1.6 million euros).

PROPERTY AND INVESTMENTS

Investments in tangible assets of the Bank, before amortization, totalled 76.2 million euros with a decrease of 1.17%. During the year no purchases of property to be used as branches are reported.

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

The subsidiary Dé Toschi S.p.A. closed the year's accounts, prepared in accordance with international accounting standards (IAS/IFRS) at 31 December 2011 with a profit of 5,729 euros after taxes for the year of 41,498 euros. During 2010, the company, in the pursuit of its statutory objectives, acquired at auction an

⁵ The ratio between net impairment of receivables (item 130.a of the Income Statement) and the gross loans to customers of December of the previous year (item 70 of the balance sheet, gross of the funds).

unfinished property consisting of ten apartments in Tavernelle di Calderara. The property, which became available 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, for which the works are expected to be completed in the second half of 2012. The refurbishment of the square in front of the building is being completed.

Pomodoro Viaggi S.r.l., a subsidiary engaged in the tourism sector, has ended the year 2011 with a loss of 359,970 euros, based on the accounts produced in accordance with the national accounting standards referred to in Legislative Decree 127/1991. The difficulties of 2011 were reflected in a sudden further drop in the turnover, which stands at -15.61% compared to the previous year, dropping from 15,499,000 euros to 13,080,000 euros. At the end of the year, the workforce of the company totalled 25, compared to 32 at the end of 2010.

PARTNERS AND SHAREHOLDERS

At 31 December 2011, the Bank's capital subscribed and paid up equalled 48,031,603 euros and consisted of 930,124 ordinary shares of a nominal value 51.64 euros each. No shares have been issued and not yet released at this date, while there are 61,639 additional shares repurchased under the provisions of art. 20 "Capital" of the Statute and Article 2529 of the Civil Code, for 1,723,485 euros.

The Bank continued to strengthen its social base with the number of its shareholders rising from 6,976 in 31 December 2010 to 7,194 at the end of 2011, despite a slight decline in total capital invested (-2.52%), which fell from 49.5 million euros at the end of 2010 to 48 million euros at 31 December 2011.

The results obtained allow the Bank to pay its shareholders an overall return of 1.25% on the capital invested, distributed as dividends.

Based on the proposed allocation of the profits that will be presented at the Shareholders' Meeting, the regulatory capital of the Bank in 2012 could reach 142.75 million euros.

The Bank margin (Table 7) stays high with respect to the minimum prudential requirements set by the supervisory board (6% Tier 1 Capital Ratio and 8% for the total capital ratio, as shown in greater detail in the Supplementary Notes), thus showing a capital that is suitable to support the Bank development, and a surplus of 47.7% for equity compared to the minimum level required by current regulations.

Table 7 MINIMUM REQUIREMENTS AND CAPITAL (in thousands of euros)

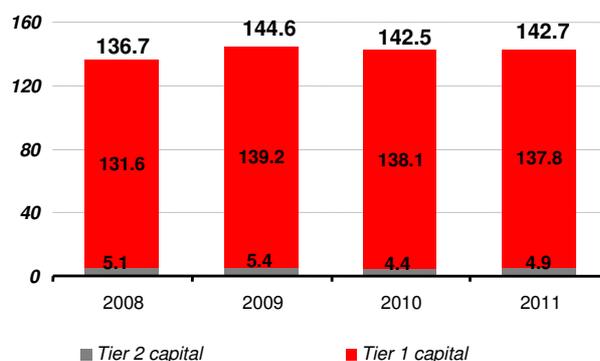
	2010	2011
Tier 1	138,107	137,816
Regulatory capital	142,497	142,747
Prudential requirements	77,802	74,626
Excess	64,695	68,121
Tier 1 Capital Ratio	14.20%	14.77%
Total Capital Ratio	14.65%	15.30%

As expected, the Bank's shareholders as at 31 December 2011 were 7,194, up 3.125% due to the "open door" policy, which this year has allowed for the admission of 417 new members. Shareholders have maintained a privileged position in the development of the Bank's policies, making considerable efforts to continue to provide those benefits in the future, not only in finance.

To fulfil its mutual ownership obligations, in accordance with the provisions of article 2412 of the Italian Civil Code, the Bank has provided its shareholders with all the support needed to perform their activities, carrying out all the operations and providing the banking and financial services in compliance with legal provisions.

The Board of Directors, for the admission of new members, has followed the policy of territorial jurisdiction.

Figure 12 – Regulatory capital (after profit allocation; millions of euros)



PRODUCTS, SERVICES AND SALES CHANNELS

Many initiatives have been designed by the Bank to prove its attention to its customers. One of these is the **Cliente Attivo** (customer assets) project, started at the beginning of 2012, to award those customers who introduced family and friends as new account holders, as they were satisfied with the relationship established with our bank. Our attention also focused on children, with special products like the Christmas Paying in Book.

In 2011 the bank continued to update its product range, enhancing it and making it more competitive, and to

optimise the sales, personal, corporate, private banking and financial advisors channels.

During the year the Bank continued its commitment to supporting its reference territory in a delicate economic moment. It participated in a table for the preservation of productive assets, together with other local banks, the trade unions CGIL, CISL and UIL and UGL and the INPS offices of Bologna and Imola. The Protocol has allowed those employees of companies in difficulty that had required the activation of social safety nets, the advance of the ordinary and extraordinary layoffs funds at no cost. During the year, the agreement provided support to employees in various local companies.

To support the economic fabric of our territory, the agreements were renewed with the main trade associations and credit syndicates to which the SMEs of all the economic sectors refer to. Initiatives were implemented to sign additional agreements in order to keep the potential offer to companies always up-to-date. The Bank also renewed its participation in the Fondo Centrale di Cogaranzia to allow the credit syndicates to raise the percentage of guarantee provided and bear most of the costs involved. In addition, worth remembering is the adhesion to the anti-crisis agreement of the Emilia Romagna Regional Board, the adhesion to the ABI grace period for unsubsidised loans and the ABI grace period for families in difficulties.

The Bank carried out a customer satisfaction survey among both private customers and companies, which revealed the good and effective relationship established with customers. The results are an incentive for the bank to continue with the defined strategies to continuously improve the satisfaction of our customers.

SOCIAL RESPONSIBILITY

Worthy of note is the important social commitment assumed by Bank to finance the redevelopment of Piazza Minghetti, which should be completed by the end of this year.

Among the social and cultural initiative promoted in 2011, the participation in the restoration of the Basilica di San Petronio should be noted.

Concerning the Bank's commitment to various charities, an example is the school education project aimed to assist children with specific learning difficulties carried out in December 2011.

Finally, the Bank made its usual annual contribution to the association "Noi per Voi", set up by Bank employees, which during 2011 undertook a host of charitable actions such as the collection of gifts for children at Gozzadini hospital, promoted by Ageop Ricerca Onlus, in which all the employees of the Bank took part.

INTERNAL ORGANISATION

2011 saw the completion of several activities to adapt operational processes and IT procedures to the new regulations (transparency, anti-usury, new Consob provisions).

With the aim of increasing the efficiency of the operating processes and services offered to customers, a host of actions were implemented. The outsourcing to Caricese of the mortgage back-office activities and the reclassification of Cebi financial statements took place. The change of the resolution of credit powers made it possible to obtain an integrated and semiautomatic management of the opening of several products and services at the same time (current account, home banking, ATM card and stock dossiers) per individual customer. The BBdirect home banking product dedicated to private customers was restyled. The invoicing process for Financial Advisors was enhanced and an evolved platform for on-line trading was started. Currently being created are various projects such as the investment consultancy services, the opening of c/a via the Bank's new web site and the card with Iban.

Part of the stock back office activities were outsourced to CSE – Consorzio Servizi Bancari in concomitance with the definition of the exclusive agreement in custody and settlement via SGSS S.p.a. located in Milan, an important leading company in Italy belonging to the Société Générale Group.

Regarding IT Systems and New Technologies, new instruments were introduced and projects started aiming at making the structure more efficient, cutting costs and facilitating change and innovation. The added value we pursue lies in is the creation of integrated solutions to improve production processes and the communication and cooperation within the Bank and with Customers.

The "Virtual Bank" project was started, which included the development and publishing of the new Banca di Bologna web site. The creation of a new, more modern and complete Intranet Portal (with web 2.0 functions) was also started, which will be the tool for the management of company communication and cooperation, featuring evolved search engines to find information faster.

The strategy continued of using Open Source software platforms by creating new systems for the management of "BBhelp" requests (which reduce the telephone use and increase operation effectiveness), for the dematerialisation, archiving and sending of "BBScan" paper documents, which decrease the use of paper with positive effects on costs and efficiency of the operating processes.

A study was conducted to start a "contact center" system to manage and control communication (telephone, fax, mail, PEC, web, etc.).

The Server room was enhanced with faster equipment that also provides more space for electronic archiving.

New spam control, security management, internet browser systems were introduced. The quality of the communication network (data and telephony), which these days plays such a major role for the corporate business, was kept high.

HUMAN RESOURCES

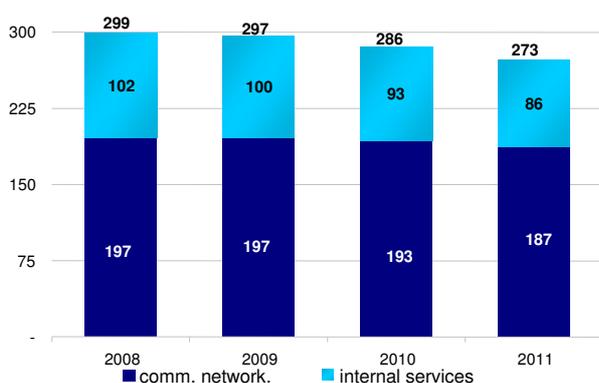
At 31 December 2011 the Bank has 273 employees; the weighted average in 2011 was 279 compared to 288 in 2010. The average age of the staff is 38.

68% of the employees are engaged in the commercial network, while 32% in internal services.

These employees are complemented by the network of financial advisors, equal to 17 people as at 31 December 2011.

This year the Bank has implemented a training plan involving all the employees for a total of 9,424 hours.

Figure 13 – Number of employees at year-end



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

BRANCH MAP

SIGNIFICANT EVENTS AFTER THE CLOSE OF THE YEAR

At the beginning of February 2012 the agreement was finalised between the Bank and Uvet Viaggi e Turismo Spa, which saw the participation in the capital of Pomodoro Viaggi S.r.l. of the important Lombard Group, with a 70% interest, while the Bank interest dropped to 30%. This situation is deemed to be strategic and of fundamental importance for the recovery of the company which is entrusted to the governance and experience of such as large partner in the industry. The new corporate bodies were appointed, proxies and powers were assigned to the new directors and attorneys, and the organisational and reference structure was redesigned to the governance and benefit of the sales network. Development and rationalisation initiatives had already been activated and work is underway.

In the first few months of 2012, S&P and Moody's, consequently to the negative "Credit Watch", downgrade the rating of the Senior notes of Felsina Funding on 23 January to AA+ and on 21 February to Aa2, respectively. This did not stop the originator from continuing to use the stocks as collateral for advances from the ECB, since the collectability requirements for this purpose were in no way jeopardised.

BUSINESS OUTLOOK

The International Monetary Fund reduced its forecasts for global growth, highlighting the risk that the European public debt crisis may threaten the operation of the world economy. Overall the global level of business should decelerate, but not collapse. Instead, a recession is forecast for the Euro Area (GDP -0.5%) and for Italy in particular.

According to estimates provided by the European Commission, Italy's GDP for 2012 will fall by 1.3%, only Greece and Portugal are worse off. Economic activity should settle in the second half of the year, provided that the conditions of the financial markets do not worsen further and that the spread remains stable at about 370 base points for 10-year bonds.

Unlike what happened in 2008 and 2009, this recession is mainly due to the internal demand and consumption in particular. Household expenditure has fallen and disposable income is showing a similar trend. The desire to save has dropped. This trend was supported, until the end of 2011, by the value decline on financial markets, which reduced the financial wealth of families. Households continue to be the most affected by the crisis. The set of measures taken by the Italian government during 2011, whose effects will be felt in 2012 and 2013, foresee for 74% the burden of these measures to be borne by households. The situation is different for companies, for which the Irap relief and the adoption of Ace (Economic Growth Aid that encourages the issue of equity in companies) should avoid a serious drop in investments in machinery and systems.

In this framework, the banking sector is committed to ensuring suitable credit flows to the economy, though having to face critical times as regards funding due to the financial tensions and the pressure exerted by the regulatory authorities on the capital gearing coefficients. This translates into a slow growth for assets and into a persistently low profitability, also due to the continuous worsening of the credit quality due to the depth and “magnitude” of the crisis. This year the ROE of the banking sector should reach its record low (0.3%), according to ABI estimates.

At local level a rather uncertain picture is confirmed. The economic prospects for the Bolognese region are seriously affected by the dynamics of the global market and are closely related to the reference international framework. The economic activity at a global level is slowing down: the economic-financial picture is particularly unstable as it is subject to the effects of the debt crises of some countries in the Euro area, the uncertainties on the growth capacity of the USA and the tensions in North Africa and the Middle East.

Despite this context, which is even more complex for the banking sector and where the elements of uncertainty make the forecasts and expected results volatile, last February the Bank approved the 2012 budget, which sets objectives to increase commercial activity, productivity and efficiency, combined with others the containment of the chief critical factors such as the credit and liquidity risk.

RELATIONS WITH COMPANIES OR ORGANIZATIONS THAT PERFORM DIRECTION AND COORDINATION ACTIVITIES

Banca di Bologna is not subject to any company or entity that exercises direction and coordination activities; therefore, the detailed information required by law is not provided in this report.

PROJECTED ALLOCATION OF PROFITS

With Communication of 2 March 2012, the Bank of Italy stated how, in the current economical phase, banks and banking groups are required to maintain the credit offer to the economy despite an overall unfavourable context due, among other things, to the tension concerning liquidity and the increased riskiness of the assets connected with the worsening of the real economy conditions. This makes it more important for banks and banking groups to preserve, also with a view to the future, the balanced corporate situation and maintain the conditions of suitable capital and the prudent management of the liquidity risk. This scenario is also affected by the evolution of the international framework: financial advisors must schedule initiatives to ensure the compliance with the new rules introduced with the reform of prudential regulations (so-called Basel 3), whose application is set, with a progressive approach over several years, from 1 January 2013. Thus financial

advisors will need to start taking a capital strengthening route, which in some cases may become extremely important. To achieve the objectives of maintaining and supporting the economy and strengthening capital, it is necessary to use all the levers available; among these, the decisions assumed by the banking groups and banks are particularly important, concerning the distribution of profits with effects on the financial statements 2011. In general, the attention of all banks is drawn on the need to adopt profit distribution policies to maintain suitable current and future capital conditions, in line with the overall risks assumed. Any distribution of profits must be compatible with the preservation of a capital level that is such to guarantee obligatory capital requirements and that the levels of internal capital calculated within the ICAAP process are covered.

In compliance with Article 37 of Legislative Decree no. 385 of 1 September 1993, and with Article 49 of the Articles of Association, the projected allocation of net profits for the financial year 2011 is as follows:

- to legal reserves (pursuant to Art.12 law 904/77)	1,751,602
residual	
- To the mutual Fund for Promotion and Development of Cooperation (Art. 11, Law no. 59 of 31/1/92 and subsequent amendments): 3% of the net annual profit	73,265
-to the shares to the measure of 1.25% of the capital paid	617,283
TOTAL	2,442,150

We also propose to set aside a legal reserve in the sum of 1,285 euros, from the 2006 financial year's residual dividends not claimed by shareholders.

The Board of Directors
President
Marco Vacchi