

**NOTICE TO THE PUBLIC  
IN ACCORDANCE WITH SUPERVISORY MEASURES  
FOR BANKS (CIRC. NO. 263 OF 27 DECEMBER 2006)**

**REFERENCE DATE: 31 DECEMBER 2010**



cooperative joint stock company  
Treviso Register of companies no. 00208740266  
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Member of the Interbank Fund for the Protection of Deposits

## INTRODUCTION

Bank of Italy Circular no. 263 of 27 December 2006 and following amendments, Chapter IV, introduced the obligation to periodically publish information on capital adequacy, risk exposure and the general characteristics of the systems adopted to identify, measure and manage risk for the purpose of strengthening market discipline.

The Veneto Banca Group (hereafter referred to simply as "the Group") must formalise the strategies and procedures which will ensure respect for the information requirements and assess the adequacy in terms of methods and frequency of diffusion of the information. It is the responsibility of the Group to guarantee the completeness, correctness and truthfulness of the information published.

Bank of Italy verifies the existence of organisational supervision appropriate for guaranteeing reliability in the processes of production, processing and diffusion of information.

The information published in compliance with the above-mentioned discipline is qualitative and quantitative and follow the breakdown into four summary tables defined in Attachment A, Chapter 1 of Circular 263.

No blank tables are published.

Quantitative information, unless otherwise specified, is expressed in thousands of Euro.

The present document, entitled Disclosure to the Public, which constitutes fulfillment of the legislative obligations mentioned above, is prepared on a consolidated basis and is published every year, at the same time as the annual financial statements and the consolidated financial statements.

Veneto Banca the notice to the Public (Risk Report Pillar 3) and its successive updates on its internet site [www.venetobanca.it](http://www.venetobanca.it)

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<sup>1</sup>The Tables "7 - Credit Risk: notice on portfolios to which IRB approaches are applied" and "11- Market risk: information for banks using the method of internal models for position risk, exchange risk and goods risk (IMA)" are not supplied because they are deemed not pertinent in view of the Group operations.

## TABLE 1 - GENERAL INFORMATION REQUIREMENTS

### QUALITATIVE NOTICE

Starting on 1 January 2008, the Veneto Banca Group definitively applied the new prudential supervisory measures, after having exercised the option of one year postponement as per Directive 2006/48/CE, introduced in Italy by Bank of Italy Circular no. 263 of 27 December 2006 which implemented the provisions of the New Agreement on capital called Basel II.

The new measures brought important innovations in terms of measuring and managing risk capital which, very briefly, can be summarised by the architecture of that regulation articulated in 3 pillars where the first provides for the evolution of Basel I (standard capital requirements) towards more sophisticated measuring methods (Standardized IRB), with innovations especially in credit risk and the addition of operational risk. The second pillar instead involves the implementation of the internal process of prudent control intended to bring about an overall self assessment of the capital adequacy (ICAAP<sup>2</sup>), which would then be re-examined by the supervisory authorities (SREP<sup>3</sup>).

The third and last refers to the requirement to supply adequate notice to the public on matters concerning capital adequacy, risk exposure and their related identification, measurement and management systems.

The aim of the adoption of the new rules is, in addition to identifying risk as completely and accurately as possible in the various lending forms by applying analysis methodologies and more evolved calculation than those required by regulations previously in force, to pay greater attention to and to be more aware of risk control, going beyond the merely prudential and employing the new concepts introduced especially with regard to the second pillar.

Since 31<sup>st</sup> December 2010, according to the instructions, the 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> updates of the aforesaid circular, issued in the same month of December, have been included. These updates aim to give progressive implementation of the lines - defined in the second half of 2010 - of the Bank for International Settlement (BIS) within the sphere of the Basel Committee, known as "Basel III". The revision was developed subsequent to the deterioration of the international financial situation, with the purpose of reinforcing the capacity of legislation to contrast the presence of crisis phenomena.

In the following paragraphs the main characteristics of the management policies of the main risk profiles are illustrated as required by Bank of Italy Circular no. 262 of 22 December 2005.

This section presents the detailed risk control and survey methodologies required by current legislation (cf. Circular no. 262 of December 2005 and subsequent amendments) which specifically calls for the provision of information on specified risk profiles, related management policies and coverage implemented as well as on operativeness in financial derivatives instruments.

The types of risk considered which coincide with those mostly concerning the typical commercial and financial operativeness of the Group are ascribable to:

- Credit risk:
- market risk, which can be broken down into:
  - interest rate risk;
  - price risk;
  - exchange risk;
- liquidity risk;
- operational risk

as well as the potential risks to which the group could be exposed, that is:

- risk deriving from securitisations;
- residual risk;
- strategic risk;
- reputational risk.

The Veneto Banca Group has always governed its activities - ordinary and extraordinary - in accordance with prudential criteria and limited its own risk exposure as much as possible in compliance with the need to protect its financial solidity and its reputation and the spirit of mutual cooperation which characterises the Institute.

This can be seen in the constant and careful risk control in the management model based on:

- clear identification of responsibilities in the risk assumption processes;
- adoption of measurement and control systems in line with best international practices;

<sup>2</sup> Internal Capital Adequacy Assessment Process

<sup>3</sup> Supervisory Review and Evaluation Process

- the clear separation between organisational units governing risk and the functions delegated to its control.

These guidelines were set out and formalised in specific policy manuals on large risks, approved by the Parent Company Board of Directors as proposed by the Group Risk Committee and were subsequently adopted also by the governance bodies of the subsidiaries. These documents are intended to control the definition and perimeter of regulated risks, the significant indicators subject to periodical monitoring, supervisory thresholds and operational limits, overdraft management procedures, stress tests applied and the organisational structure assigned to carry out disciplinary activities.

Within the framework of the risk management model adopted, the Parent Company has responsibility for overall direction, management and control and the individual companies which generate risk of the types related to the nature of their specific business must operate within the limits of autonomy assigned to them.

### **CREDIT RISK:**

Credit disbursement is one of the essential elements of the core business of the territorial banks belonging to the Veneto Banca Group.

The Group has for some time adopted a credit policy aimed at supporting lucrative and constant growth in lending throughout the territories it covers and pursuing continuous improvement in the quality of its credit through assessment of and monitoring the risk concentration by sector and yield.

### **Organisational Aspects**

The Group's credit strategy is aimed at an efficient selection of borrowers through an accurate analysis of creditworthiness so as to contain the risk of insolvency while keeping in mind commercial objectives.

In order to do this, portfolio loan diversification criteria must be applied while at the same time the concentration of exposure in individual counterparties and economic business sectors must be limited.

This is flanked and supported by a disbursement scoring system and a portfolio trend control model which allows prompt detection of any symptoms of deterioration in positions and their management in a specific credit supervision system.

This activity devolves upon the internal Credit Supervision structures of the banking network coordinated centrally by the corresponding function of the Parent Company which must also take broad initiatives and/or sectorial initiatives to protect and contain credit risk.

Central Credit Division supervises all phases of evolution, composition and management of the credit portfolio, also interacting with other Bank structures such as Risk Management and Internal Audit.

Credit risk assumption is regulated by an articulated structure of operational delegations and levels of decision-making autonomy defined by the Board of Directors of the Parent Company and expressed in terms of exposure of the counterparty borrower. In this context, direct and indirect risks are also considered by financial group, accumulation, technical form, loan duration, risk fractioning etc. as well as the risk classification of the counterparty.

The Parent Company also exercises its function of guidance and strategic control of credit through the procedure of the "binding opinion", obligatory for all single positions and/or positions of economic groups that exceed certain direct risk thresholds, of 5 million euro for investee companies operating in Italy, 2 million euro for Banca Italo Romena and 1 million euro for investee companies operating in Eastern Europe.

The evaluations, monitoring and classification of risks of performing positions are carried out by dedicated organisational units from the credit territorial structures, supported by computer systems which provide a counterparty rating, and by an integrated monitoring and monthly reporting system carried out by the Credit Monitoring department of the Parent Company aimed at giving analytical information on the composition and distribution of the credit portfolio, pursuant to which targeted and immediate measures are activated and favoured to protect against the risks. Similar activities are also carried out for foreign subsidiaries.

Watch-listed positions, instead, are followed by a dedicated organisational structure which envisages specialist units in support of the network activities, diversified according to credit exposure level, at both peripheral level and at the Central Credit Management level. Non-performing loans are instead monitored on behalf of the network banks by the Legal Department and the department of the foreign subsidiaries, with support from the Parent Company through outsourcing contracts.

### **Management systems, measurement and control**

As mentioned above, the Group credit activities are regulated by a precise structure of operational delegations and levels of decision-making autonomy which take into account not only the exposure of the individual counterparty but also the overall risk assumed with respect to connected parties and to the technical characteristics of the existing relationships. On the basis of this structure which defines the delegated powers by individual technical form, existing guarantee and professional figure, all the loan proposals and requests for derogation must follow the hierarchical route of the levels starting with the branch managing the relationship with the client up to the competent deciding body.

For several years, the Veneto Banca Group has implemented a process aimed at adapting the Bank to the prudential discipline for banks and banking groups, on the basis of the new Basel agreement on capital.

This approach was adopted as long ago as 2002, with the introduction of statistical tools for risk assessment and with customer screening and qualitative monitoring techniques. The system includes a structured model for protection and analysis which, from the disbursement stage, ensures the monitoring of the positions and the handling of any default via an integrated database.

After almost ten years experience, Veneto Banca, in 2010, launched the creation of a system based on internal rating methodologies, as envisaged by the Supervisory Body pursuant to the Basel 2 principles. The recent growth in the size of the Group, in fact, made even more urgent the need and opportunity to move towards IRB approaches. These, as is known, have a strong impact and go well beyond the simple construction of statistical instruments for the measurements of risk. In particular, the process of validation prescribed by the regulations requires the Group to prepare an implementation plan which covers the aspects of governance of the project and of involvement of the Board of Directors/Top Management, and of the organizational and methodological changes and information system updates, to be monitored continuously in terms of consistency with respect to the minimum requisites for compliance.

The Assessment performed made it possible to insert all the necessary actions in an overall programme, which combines methodological, regulatory, organizational and IT responsibilities.

The implementation of the programme began in the second half of 2009, starting from the aspects concerning the "Models and Methods" area, which, as the first step, required the updating of the risk segmentation logics, to allow for a development of rating models and a construction of rating assignment processes fully coherent with the risk features of the target clientele. 13 risk segments were therefore defined, identified on the basis of identity database drivers and financial statements.

In 2010, the models were developed, differentiated according to the Retail, Corporate and Large Corporate segments, able to assign to every customer, on the basis of the specific information of that counterpart and the behaviour of counterparts with similar features, a risk assessment which features and distinguishes the same.

The models were constructed analysing the behaviour and features exclusive to the clientele of the Group (internal models), making them perfectly adherent to the type features which distinguish the clientele of the Veneto Banca Group.

The assignment process which assigns each customer a rating class, becomes a reference for the bank in all the processes in which risk assessment is opportune.

As regards the Business segment (individual and joint-stock companies), to respond to the recent growth in terms of numbers in this sector due to new acquisitions and required by the delicate economic situation, a rating model was developed based on a specific and consistent approach to the characteristics of this segment, guaranteeing an in-depth assessment of the accounting indicators, in keeping with the operating needs of the business

With regard to the Retail segment (private and small businesses), rating models have been designed featuring two modules (issuing and trend) integrated with each other, to result in the determination of a single rating, resulting from the joint assessment of social-demographic and system information and the relative technical forms held by the customer and, for Small Businesses, the financial statement or accounts.

The Large Corporate segment is composed of counterparts of large dimensions, belonging to complex corporate groups. In view of their limited number, however, it was not possible to develop a statistical model for ad hoc assessment. The methodology adopted for the Large Corporate rating model, therefore, envisages the processing of input deriving from information sources analysed by the company rating models (economic-financial data, internal trends and the central credit register) in order to assign the counterpart a precise rating. The rating is integrated by an expert assessment process, suitably structured as questionnaires, the answers of which are qualitatively weighted to correct the statistical assessment and to reflect the influences of the economic group to which the company belongs.

Regardless of the segment to which the company belongs, in the new Internal Rating system the rating class represents the customers' default probability, or whether they will be classified in a default category (past due, watchlist, restructured or non-performing) in the twelve months following the analysis date.

A rating class is therefore composed of the series of subjects that are considered equivalent in terms of Default Probability.

To reach the assignment of a new rating assigned to each counterpart, a new rating assignment process has been constructed, with different methods according to the type of counterpart, in particular privileging a greater depth of analysis for the most important counterparties (SME partnerships, joint stock SME, Large Corporate).

The rating thus assigned to each counterpart direct the credit issue processes and for this purpose the decisional processes in force have been reviewed.

The period of use of the above described rating system (experience requirement) of three years, necessary for the Supervisory Authority to authorise the use of a system for measuring the capital requirement against the credit risk, began in January 2011. The use of the system is applied, in respect of the requisites envisaged by legislation, for credit granting and renewal, and for risk assessment.

While working towards completion of projects on adaption to advanced risk credit measurement methods, for the Group banks with a database of sufficient historical depth, in 2010 Risk Management also maintained the estimates used internally for management purposes and validity and validity exclusively for internal loans.

It indicates, specifically, the probability of default within 12 months (PD) for each counterparty and the loss given default (LGD) connected to the default. Such estimates are updated monthly and are taken into account in quantifying expected losses (PA)

Operationally these are also used in the calculation of prudential adjustments which include the lump sum provisions on performing loans for balance sheet purposes in accordance with the provisions of the international IAS/IFRS accounting principles. For that purpose, the estimates of the PD and LGD risk components are implemented in the collective assessment process in determining devaluation percentages to apply to performing loan portfolios thus ensuring greater consistency between estimates of provisions for accounting purposes and the quantification of prudential capital requirements at the time the new supervisory regulations come into force.

Moreover, the internal estimates of PD and LGD (Loss Given Default) are the basis for a detailed system of supervisory limits and thresholds which are monitored monthly in order to check the consistency of the indicators with the risk propensity on which the Bank's strategic and operational guidelines are based.

With regard to the methodological choices adopted for assessing risk measures with management validity, the 12 month probability of default (PD) is estimated starting with the record of the frequency with which individuals classified in the performing categories passed into the default categories after a 12 month period. The PD of each counterparty for each of the risk segments is calculated monthly and duly updated with the new information gathered over the course of the relationship.

PD estimates are also aggregated for various analytical axes such as the single segment, geographic area, bank, area of commercial competence, sector and economic activity, etc., so as to allow comparison with public system data.

Loss given default (LGD) is estimated by applying the statistical model known in the literature as the "workout LGD". The approach explicitly considers both operational costs for managing the defaulting case and the financial costs related to the duration of the dispute. Therefore any recoveries actually collected after default are measured and discounted to reflect the financial value over time.

The constant monitoring of credit risk implemented as described above, is carried out in all Group banks belonging to the group-wide computer system, among which are included Veneto Banca, BancApulia spa e Cassa Risparmio di Fabriano e Cupramontana spa.

As regards the Companies not included in the consortium perimeter, the Risk Management Unit has established a process of monitoring and analysis of the relevant credit risks, through the production of management reports every month.

#### **Credit risk mitigation techniques**

Consistent with the Group's strategy, credit policy is always centred on criteria of healthy and prudent management and demands flexibility in utilisations, correct financial flows and avoidance of excess.

The development of adequate computer supports in recent years has made it possible to better direct loan management and related risk towards the correct use of delegations, prudent assessment of creditworthiness, the regular establishment of guarantees - specifically of pledges - and towards a strict management of relationships with specific reference to overdrafts.

Credit risk monitoring related to activities with clients is furthermore constantly ensured by the Parent Company through the systematic checking of relationships with irregular trends and with measures set in place for any interventions needed to eliminate or mitigate any such related risk.

Correct classification is ensured for performing positions and those under supervision, defining when needed the timing and procedures for reclassification to problem loans or non performing loans. Specific case history notes were furthermore introduced for the purpose of specifying the existence of unpaid (*past due*) as required by the new prudential supervisory regulations.

The Credit Supervisory office ensures constant remote monitoring of credit risk in relations with the clients of the Group companies and takes any necessary steps to eliminate or mitigate risks coming from business sectors and/or from relationships with irregular trends.

The same function ensures correct classification of performing positions and those under supervision using "trend rating" and proposes the reclassification to problem loan for counterparties deemed to be at greater risk and for which it is deemed that coercive measures should be undertaken.

It keeps the monitoring and risk control processes and instruments updated, ensuring continual consistency with both corporate policy and the provisions of the Supervisory Body.

The Parent Company's Doubtful Loans Office, finally, is responsible on the one hand for accurate and specialized management of the portfolio of doubtful loans with the priority aim of recovering their performance and, on the other hand, for a correct arrangement of the lending system and of its guarantess with the aim of ensuring the maximum protection against risks in the case of classification as non-performing loans, the management of which is entrusted to the Parent Company's Disputes Office.

#### **Non-performing financial assets**

By resolutions of its board, Veneto Banca has adopted valuation criteria for watch list loans and non-performing loans. Said criteria establish that:

- a) analytical valuation is to be applied to non-performing loans pursuant to the rules of the non-performing loans management policy;
- b) analytical valuation is to be applied to watch list loans for amounts over € 20,000.00, and lump-sum valuation to loans for lesser amounts.
- c) restructured loans are assessed in detail identifying a recovery forecast subject to discounting determined on the basis of the actual recovery times estimated by the corporate units responsible.
- d) loans which are past due and/or over-the-limit for more than 180 days are the subject of detailed assessment if they are more than Euro 1 million; those less than a million and loans past due for 90-180 days are assessed at a flat rate on the basis of an estimate of future nominal flows corrected for the expected losses using the parameters of "probability of default" (PD) and "loss given default" (LGD).

These criteria were also extended to subsidiary banks, except for the foreign banks, including Banca Italo-Romena in consideration of the fact that all its branches are located in Romania. For these banks, since a modest number of positions are at stake, valuations are analytical with a case-by-case examination based on experience rules.

The parent company manages the non-performing loans through its Dispute function, with assignment of single positions to individual staff members; the same procedure is adopted for the watch-list loans. For loans of moderate value, the Bank avails itself of amicable recovery procedures through specialised external companies.

The classification of a loan in the watch-list is proposed to the Central Loan Division by the Credit Supervision Department. Once a loan is recorded in the watch-list, its management – including the decision for its transition to non-performing loans - is performed within the Central Loan Division.

Management is inspired by the cost-benefit principle, and to this end out-of-court solutions with settlement in the short-term are favoured over legal action due to the latter's cost and duration. Nonetheless, the Bank ensures remarkable speed of recourse to legal action when the counterparty's assets seem sufficient to guarantee recovery of all or a significant part of the loan.

All of the Group's companies have, generally, agreements with first-rate law firms that are responsible for the majority of ordinary recovery action; nonetheless, the Bank also avails itself of other professionals based on the type of problem at hand and the appropriate sector specialisation.

Valuation of non-performing loans is updated durante tutte le fasi di gestione del recupero del credito a seconda dei mutamenti in fatto ed in diritto e comunque almeno trimestralmente; that of watch list loans on a quarterly basis. Updates on legal action in which the Bank is the defendant other than credit recovery (avoidance actions, actions regarding investment services, disputes of cheque payment, etc.) are also provided on a quarterly basis. Thereafter, monthly and/or quarterly reports are prepared to report the situation to the Top Management of the Parent Company and to the General Managers of the banks of the network and to the financial reporting department. This information is then shared with the Board of Directors, for the related resolutions (if any), as well as with the Board of Auditors.

Finally, as regards the factors which determine the re-classification back to performing loans of the loans included in the watch-list, there are no pre-set rules, but this re-classification is carried out on a case by case basis, subject to the prior assessment of the cessation of the conditions which led to the default, all with the appropriate resolution of the applicable body.



**Concentration risks**

On the basis of Bank of Italy Circular 263/2006, concentration risk is defined as “the risk deriving from exposures to single counterparties or groups of connected customers (concentration on single borrowers or single names) or of counterparties operating in the same economic segment or geographical area (geo-sectoral concentration)”.

The Risk Management Unit of the Veneto Banca Group has developed methods for the measurement and monitoring of this risk. The results are summarized in a monthly management report.

For the banks in Italy the concentrations monitored monthly are those involving the different business segments and the economic groups to which one or more banks of the Group are most exposed. The results of these measurements are the basis for a detailed system of supervisory limits and thresholds, which are monitored monthly in order to check the consistency of the indicators with the propensity to sectoral and idiosyncratic concentration on which the Bank’s strategic and operational guidelines are based.

For all the Group entities, including the foreign legal entities and product companies, the Granularity Adjustment is also monitored monthly; this is calculated according to the method indicated in Annex B, Title III, Chapter 1 of Bank of Italy Circular 263/2006.

**MARKET RISK**

The following commentary makes reference to the following paragraphs of the Bank of Italy’s Circular N. 262 of 22 December 2005.

- 2.1 Interest rate risk and price risk– trading portfolio for supervisory purposes
- 2.2 Interest rate risk and price risk – bank portfolio
- 2.3 Exchange rate risk

**1. INTEREST RATE RISKS AND PRICE RISK – REGULATORY TRADING BOOK****General issues**

According to the directives set forth by the Parent Company’s Board of Directors, own assets from the stock, bond, money market, forex and derivatives compartments that are subject to market risk due to trading and/or arbitrage are referred to the Group Finance Central Division and the Irish subsidiary Veneto Ireland Financial Services Ltd, and the subsidiary Banca Intermobiliare di Investimenti e Gestioni spa (BIM), within specific limits and according to precise criteria of risk and return in order to optimise expected profit and loss.

Product companies are not authorised to hold positions subject to market risk, foreign subsidiaries Banca Italo Romena, Veneto Banka d.d., B.C. Eximbank and Veneto Banka Sh.a. cannot hold trading positions except for residual positions in foreign exchange or derivatives relating to obligations of a regulatory nature (mandatory trading portfolio on Moldavian securities held by B.C. Eximbank). Italian bank subsidiaries may, when the Risk Committee so proposes, assume market risks strictly for strategic purposes and subject to resolution to their respective boards and that of the Parent Company.

In terms of market risks, total exposure is quantified by the Parent Company on a daily basis in terms of “Value at Risk,” (VAR) with the profit and loss components of the trading portfolio constantly monitored. The potential impact of different scenarios on main risk factors is also assessed on a regular basis, these mainly consist of sharp fluctuations on the interest rate market or assumptions of sharp fluctuations on the equity markets.

Senior management is informed of any instances in which authorised operating limits are exceeded and of any contingent or forecast risk situations deemed worthy of attention on the basis of market performance and set principles.

The main source of the interest rate and price risk consists mostly of positions on plain securities: IRSs, bonds, equities, UCITS units and equity derivatives.

**Liquidity/price risk: anagement processes, and assessment methods**

Financial risk tolerance policies are expressed as operating limits in terms of maximum loss (Value at Risk on a 10 day and at a 99% confidence level) approved by the Parent Company's Board of Directors. VaR is an estimate of the maximum amount that may be lost with reference to a specific time horizon and a given confidence level.

The price risk and interest rate risk are calculated, as prescribed by the current prudential supervisory regulations for banks issued by the Bank of Italy, considering the financial instruments present in the regulatory trading book.

The monitoring and management of interest rate and price risk are part of the operational management of market risk. For this purpose at the end of every day the Value at Risk is calculated at 99% of confidence in a time horizon of 10 days with the historical method.

In determination of the price risk implicit in the construction are the price changes dependent on fluctuations of market variables (the risk factors taken into consideration) and the specific factors of the issuers and counterparties (specific risk factors) and on the dependency existing between them ("correlation").

The following are envisaged:

- position (stock) ceilings, to monitor total exposure;
- financial ceilings that limit operations on individual exposures;
  - total limits in terms of Value at Risk (VaR) and strategic Stop Loss, for the monitoring of market risk.

The VaR relating to market risk is calculated with the method of historical simulation which uses a unilateral confidence interval of 99% and a holding period of 10 days.

The VaR limits assigned to the different compartments are approved annually by the BoD on the basis of the budget assigned to the individual business units.

The daily VaR dati are historicized for each portfolio in order to populate a database needed for the backtesting work.

It must be noted that the internal VaR model is not used in the calculation of the capital requirements on market risks for the purposes of regulatory reporting to the Bank of Italy, for which the standard approach is adopted as laid down in the prudential supervisory regulations.

**2 INTEREST RATE RISK AND PRICE RISK— BANKING BOOK****Liquidity/price risk: general issues, management processes, and assessment methods**

The Veneto Banca Group has a dynamic approach to managing interest rate risk, the objectives of which are to ensure correct risk management by:

- 1) preserving the stability of the interest margin and minimising the negative impact of changes in interest rates (current earnings approach), focusing mainly on the short term. The stability of the interest margin is mainly influenced by the Repricing Risk, Yield Curve Risk, Basis Risk and Optionality Risk;
- 2) immunising the economic value, which is the sum of the present value of future cash flows generated by both sides of the balance sheet, thereby providing a medium/long term outlook which is mainly tied to the repricing risk;
- 3) ensure that the interest risk assumed or to be assumed is correctly identified, measured, controlled and managed according to official, shared methods and procedures, while maintaining the quality of the measurement systems and management processes in lines with the best practices on the market.

Since 2003 the Bank has employed a process aimed at quantifying and managing cash flows in an integrated manner, and has used a specific Asset and Liability Management (ALM) computer programme to monitor said risks, created by Prometeia.

The techniques applied enable the following risk categories to be monitored:

- changes in interest margins resulting from temporal mismatch in maturities and the time lag in the repricing of interest rates on the Bank's assets and liabilities. Changes in expected interest margin due to such mismatch, where interest rate shocks occur, can be measured via Maturity Gap techniques with reference to the financial year in course, that is, for the short-term period. This change is measured using the unexpected shock of +/- 100 basis points;
- changes in Group profit or loss due to market rate shocks. The impact of such shocks is measured on the long-term using Sensitivity Analysis techniques. This change is measured using the unexpected shock of +/- 100 basis points.

The Companies of the Group currently monitored with these techniques are comprised of the Parent Company Veneto Banca, two commercial banks BancApulia e Carifac and the subsidiaries Claris Leasing,

Veneto Ireland Financial Services, Apulia Prontoprestito e Claris Cinque.

On the other hand, the extension of the monitoring also to Banca Italo-Romena, B.C. Eximbank s.a, Veneto Banka d.d. and Veneto Banka sh.a.

Greater understanding of the dynamics underlying accounts in the portfolio and their constant monitoring led to the introduction of specific positioning policies over the year, based on forecast trends in market rates.

The Parent Company's Board of Directors has set specific limits within which the Group must operate. The Group's Risk committee is therefore in charge of periodically examining the companies' risk situations and providing the Group Finance Division with guidelines for contracting or expanding positions.

The Board of Directors has also decided upon the management policy for interest rate risk and the application of hedge accounting principles.

The main sources of price risk are represented by capital securities, stakes in mutual funds and securities falling within financial activities available for sale and those classified among the financial activities assessed at fair value. This portfolio also includes securities which before applying international accounting principles were classified among the equity investments.

Price risk measurement and control methods are not limited only to variations deriving from fluctuations of market variables but intrinsically include specific factors since internal VaR models use the historical simulation methodology. The parameters and assumptions for VaR calculation are the same as those already expressed in the section on market risk.

The price risk is calculated as required by the regulation currently in force on prudential supervision for banks issued by Bank of Italy.

Price risk monitoring and management fall under operational market risk management, that is, Value at Risk on the 10 day horizon at 99% of confidence is calculated at the end of the day using the historical method.

In determining this value, the price variations influenced by fluctuations in market variables (risk factors considered) and by the factors specific to issuers and counterparties (specific risk factors) and by their interdependence (Correlation) are built in.

#### **Fair value hedges**

Hedging is carried out at an integrated level for the entire Group by the parent company's Finance Central Division in order to protect changes in fair value of deposits and loans caused by market movement of the interest rate curve. The following types of derivatives are employed: interest rate swaps (IRSs), cross currency swaps (CCSs), and interest rate options (IROs). Hedges performed for subsidiaries are in turn replicated on the market so that the hedge meets the valid requirements to be entered to the hedge accounting form and be considered IAS compliant at the level of the consolidated financial statements.

#### **Cash flow hedges**

Hedging aims to protect against cash flows changes caused by market movements of the interest rate curve.

This type of hedging is not normally carried out by the companies of the Group; however, the BIM Group, which has now been incorporated, had an interest rate swap derivative to hedge specific cash flows relative to lease positions of one of its subsidiaries.

### **3. EXCHANGE RATE RISK**

#### **Exchange rate risk: general issues, management processes and assessment methods**

The main sources of exchange rate risk are the negotiation of spot exchange rates, term exchange rates and derivatives thereof as part of the activities of the Operating Finance Service which is part of the Group's Finance Department. The methods applied for measuring and controlling exchange rate risk are not limited to the changes from fluctuations in market variables but also intrinsically include specific factors as the internal VaR model uses historical simulation. The parameters and assumptions for the calculation of the VaR are the same as those set forth in the section on market risk.

The exchange rate risk is calculated as indicated in the currently applicable prudential supervisory regulations for banks issued by the Banca d'Italia for the financial instruments held in the trading portfolio for supervisory purposes.

Insofar as the monitoring and the management of the exchange rate risk operating management of the market risk is applied, that is the VaR is calculated at the end of each day at 99% confidence over a 10 day period using historical simulation.

The changes in exchange rates and the existing dependencies between them (correlation) are implicit in the determination of this value. This method involves calculating the exchange rate risk which is inherent in the activities carried out by the operating finance service which supervises spot, term and derivative trading on exchange markets.

We note that the internal VaR model is not used to calculate capital requirements on market risks to be notified to the supervisory section of Banca d'Italia as the standard method set forth in the prudential supervisory regulations is applied in this case.

### **Exchange rate risk hedging**

The exchange rate risk has been maintained, for the entire year, at VaR levels which are rather reduced and always within the limits set by the regulations on Policy for Market risks.

As regards operating ALM activities for assets and liabilities in foreign currencies, these are carried out on an integrated level for the entire Group by the Parent Company's Operating Finance Department. The latter has access to the overall position updated in real time, so as to be able to promptly act on the interbank market to balance any deficits.

The following activities are an exception to the above:

- Veneto Ireland Financial Services Ltd. (VIFS), which is authorised to assume exchange rate risk independently, within set limits. However, the exchange activity of VIFS during 2010 was practically non-existent.
- Banca Italo-Romena, B.C. Eximbank, Veneto Banka d.d. and Veneto Banka Sh.a., due to the peculiarities of the different regulatory and economic/social contexts in which they operate, are authorised to hold at their operating head quarters a daily position in exchange which is not balanced, so as to allow greater flexibility in the trading activities carried out on behalf of Retail and Corporate customers. This position is monitored on a daily basis by various Parent Company departments (Risk Management, Group Finance, Internal Audit).
- Banca Intermobiliare di Investimenti e Gestioni spa (BIM), delegated to autonomously assume the exchange rate risk, providing it is within the defined limits.

## **LIQUIDITY RISK**

### **General issues, management processes and liquidity risk assessment methods**

Liquidity risk is defined as the chance that the company may not be able to fulfil its commitments to make payments due to its inability to locate new funds, sell assets on the market to make up for the shortage, or be forced to sustain very high costs to fulfil its commitments.

The Group's governance model is based on centralised management of liquidity. This set-up ensures that in addition to being in charge of the relative policy and definition of the procedures for recognition of this specific type of risk, the Parent Company will directly manage funding and liquidity risk for all banks belonging to the Group.

The managerial approach taken therefore establishes that the Parent Company, in addition to being responsible for the related Policy and for defining the methods by which the risk in question shall be detected, is the direct manager of funding and the liquidity risk for all Group Banks with the exception of the foreign banks with regards to treasury in the various local currencies.

The Group liquidity policy is governed by the specific Liquidity Risk Policy manual.

This policy is based on the following cardinal principles:

- separation of management processes and liquidity risk monitoring processes;
- definition of a distinct limits system for short (maturity < 3 months) and medium/long term (with maturity > 3 months) positions.

Specifically liquidity management is divided into:

- liquidity risk management for the short term (operational liquidity) for the purpose of guaranteeing the ability of the Bank to honour its payment commitments and minimise its costs;
- liquidity risk management for the medium/long term (structural liquidity) for the purpose of guaranteeing maintenance of an adequate dynamic relationship between medium/long term liabilities and assets;
- monitoring short term limits more frequently than monitoring medium/long term limits;
- inclusion within the monitoring parameters of short term liquidity, of postings characterised by greater volatility and greater impact on liquidity in a "normal course of affairs" scenario;

- adoption in the monitoring of medium/long term liquidity of behavioural models for mapping the cash flow of the items without contractual maturities or with a non-determinist repayment profile (at sight items, callable assets and liabilities, assets subject to prepayment).

The goals that this model aims to achieve in addition to regulatory compliance, are:

- the instant balancing of short term monetary movements from the point of view of economy;
- the minimising of structural imbalances in the medium/long terms profile so as to guarantee a high degree of solvency and at the same time to optimise the funding cost.

From the organisational viewpoint, the operational/management owner of the liquidity risk – operationally and structurally – within the Veneto Banca Group is the Group's Central Finance Management, while responsibility for the monitoring and reporting for the Banks managed centrally, on the basis of the evidence supplied by the Group's Central Finance Management and by the Information Systems, is delegated to the Risk Management Service for both the operating and the structural liquidity.

The safeguard of the level I controls of the liquidity risk in Veneto Banca is guaranteed by the Operational Finance Service (level I controls on operating liquidity) and by the Group's Central Finance Management (level I controls on the structural liquidity); while level II controls on operating and structural liquidity are entrusted to the Risk Management Service.

For the foreign banks, however the level I controls are carried out by the Treasury Service of each bank, while the coordination between the foreign banks and the Parent Company is managed by the Foreign Banks Service of the parent company Veneto Banca.

In order to apply the principles and achieve these goals, the qualitative and quantitative instruments used in the model change according to the profile to measure and take the form of instruments and methodologies for measurement of both short term liquidity risk among which the Operational Maturity Ladder and quantification indicators and operational liquidity profile monitoring as well as medium/long term liquidity risk with specific identified ratios and limits after having defined the relevant assets & liabilities.

In addition to the instruments identified for risk control a plan has been drawn up for intervention in liquidity management in crisis conditions (the so-called Contingency Funding Plan), the statement of which came from the problematic trend of a pre-defined series of exogenous and endogenous factors.

With the issue, last December, of the 4<sup>th</sup> update of circular n. 263 of 27<sup>th</sup> December 2006, the Bank of Italy has applied the innovations on liquidity risk governance and management for banks, implementing the guidelines issued by the Committee of European Banking Supervisors (CEBS) and by the Basel Committee for Banking Supervision.

The new discipline is based on the principle according to which an adequate system of liquidity risk governance and management, combined with the overall risk management system, is fundamental to maintain the stability of the single banks and of the market. It envisages rules on internal organisation and auditing, and the adoption of precise management tools and public reporting obligations, which albeit proportioned to the operating size and organisational complexity and type of the activities performed by the single banks, require an important commitment on the part of the latter.

In compliance with the new dictates of law, already in force since 31 December 2010, in the first months of the current year the Parent Company has launched a series of activities to adapt the internal regulations and operating processes of the Group. The steps taken in this direction specifically regard:

- the definition and introduction of a liquidity risk tolerance threshold;
- the review of the control parameters and indication of the relative operating limits;
- the introduction of control over the liquidity transacted throughout the day;
- the introduction of a Group policy on internal transfer prices of the funds;
- the revision of the Contingency Funding Plan (CFP).

The management implementation of the above-outlined initiatives will be completed in the first part of 2011.

## OPERATIONAL RISKS

### Operational risk: general issues, management processes and assessment methods

Operational risk may be defined as the risk of incurring losses deriving from errors, violations, interruptions or damages due to internal procedures, persons, systems, or external events. Some examples of operational risks to which the companies are potentially exposed are errors in the execution of transactions, in the processing of data, interruptions in the information network, damages to real estate, theft and fraud.

The more advanced method with which operational risk profiles are measured calls for the combined use of internal and external information on historical operating losses and qualitative factors deriving from scenario analyses and assessments of the control system and context of operation.

In this reporting period, the Parent Company Bank continued its implementation, started in 2006 with the consultancy of a leading international company, of a firm-wide system for the detection and measurement of operational risk, thereby laying the foundation for the extension to other Companies of the Group of policies, models and methods for operational risk management.

To this regard, an integrated operational risk management system managed by a dedicated programme came on line; under this system, the firm's operational risk level will be measured by using combined quantitative and qualitative methods.

Specifically, a process has been activated which gathers the data concerning the operating loss of the subsidiary Veneto Banca spa and, at the same time, a first qualitative assessment process has been completed, capable of objectively quantifying expected and unexpected losses, registering the risk factors inherent in the analysis processes and the quality of the related internal supervisions.

Starting from January 2008, the Veneto Banca Group is a member of the ABI – DIPO consortium, the "Italian Database of Operating Losses". In the context of the Operational Risk Management an internal regulation has been issued, in order to regulate and optimise the gathering of the operational losses through an involvement of the dedicated structures. Afterwards, the structures (Risk Management, Planning & control, Legal, Administration and Balance, Technical resources, Finance, Internal Audit, Human Resources) which will have contributed to the Loss Data Collection shall also implement the Self Risk Assessment activity.

With reference to the organisational components envisaged by the new provisions of prudential supervisory regulations, furthermore, an organisational framework is being arranged – both at a Group level and at a individual entity level – for the governance of the operational risk, with an indication of the related model, functions and responsibilities.

## **SECURITISATION RISK**

### **General aspects, securitisation risk management processes and measurement methods**

Risk arising out of securitisation is defined as risk that the financial substance of the securitisation transaction is not fully reflected in the assessment decisions and risk management.

That is, the possibility must be assessed that the representation of securitisation transactions in the determination of the Pillar I prudential requirements does not fully reflect the nature of the transaction and underestimates its actual risk. Concretely, the risk lies in the possibility that the equity absorption of the post transaction assets is lower than the equity needs before the transaction.

The Group Risk Committee, once it has finalised the securitisation transaction in line with Group funding strategies, assesses, on the basis of closing data prepared by the Central Planning and Control Division and of the considerations prepared by the Central Administrative Division, if, as regard the securitisation transaction, it can be considered that the equity absorption post transfer transaction is lower than the requirement before the transfer transaction. That body must assess which specific supervisory measures to adopt in order to verify continuously that "the financial substance of the transaction is fully reflected in the assessment decisions and in risk management".

If, however, no decrease in post transaction requirements are found, the supervisory measures already in place are deemed suitable for correctly monitoring and assessing the risk of the totality of the assets involved in the transaction. It must be noted that securitisation transactions put in place by the Veneto Banca Group are not considered for supervisory purposes since the substance of the transaction does not allow for the transfer of risks outside the Group. Significant risk factors (loans, interest rate and liquidity) connected to the transaction are therefore managed and monitored according to the policy established for each specific case.

The sole exception to the above regards the non-performing loan securitisation transaction, carried out in 2009, for which the assets transferred were completely derecognised, because the relevant underlying credit risks are not attributable to the Bank.

## **RESIDUAL RISK**

### **General aspects, residual risk management processes and measurement methods**

Residual risk is defined as that risk wherein the recognised techniques for credit risk mitigation and used by the Group prove to be less effective than expected.

Residual risk occurs in relation to the techniques for Credit Risk Mitigation (CRM) used by the Group in determining the capital absorption required to cover credit risk. In view of its nature, residual risk is difficult to measure but management-wise, it can be subjected to auditing, assessment and mitigation processes.

In the absence of any best practice benchmark for residual risk supervision and in the presence of some interpretations of its characteristics which refer it to some form of operational risk (for example, pertaining to inefficiencies due to legal aspects or documentation) an approach was chosen which, after

analysing the salient phases of the guarantee management process, highlights the factors which can influence it or determine its onset.

The assessment model used is based on two fundamental elements:

- the clarification of organisational supervision in terms of:
  - controls of levels I, II and III by the functions involved, among which Risk Management (level II), Legal and the Commercial Network
  - legislation/ rules / procedures / systems with the identification of the outputs of the functional supports to the guarantee management process and the definition of the control activities which are the responsibility of the main functions involved
- the design of a control and mitigation system broken down into:
  - identification of the risk driver
  - preparation of a qualitative assessment instrument
  - definition / sharing of the weights to ascribe to the single risk factors (scoring)
  - identification of potential strategies / mitigation actions

Residual risk is managed and adopts a qualitative assessment methodology of the expert type (scorecard approach) in order to facilitate and direct management and mitigation actions.

The scorecard is developed on the basis of a qualitative questionnaire broken down into a series of selected questions for the purpose of pinpointing the individual aspects that can describe the onset of residual risk within the complex guarantee management process. The questionnaire contents were formulated regardless of the analysis of the minimum requirements related to acceptability of the security coverage since they are considered as already directed within the area of Pillar I credit risk measurement.

The scorecard has four distinct phases, that is:

- phase 1: assessment of preliminary and legal aspects related to guarantee acquisition;
- phase 2: assessment of the activity of acquisition/activation of guarantees;
- phase 3: assessment of the activities related to guarantee management (for example, monitoring guarantee values);
- phase 4: assessment of activities related to the process of guarantee enforcement.

On the basis of points earned with respect to each phase, an overall score is obtained and standardised on a rising scale of risk value levels from 1 to 5.

The compilation is done by experts who use data and information from guarantee management procedures in performing this task.

On the basis of score levels and evidence emerging during assessment, any strategies or corrective or mitigation actions needed are identified.

Periodically through the repetition of this assessment, the effectiveness of the actions taken is verified and the weights to ascribe to single risk factors may be redefined.

## STRATEGIC RISK

### General aspects, strategic risk management processes and measurement methods

Strategic risk is defined as the current or perspective risk of a drop in profits or capital deriving from a change in the operational context or from erroneous corporate decisions, inadequate implementation of decisions or insufficient reactivity to variations in the competitive scenario. The possibility must be assessed that the operational context of Group operations may not be interpreted correctly leading the Administrative Body to take initiatives that are not in line with the risk-yield objectives set by the Bank.

Similarly strategic risk also considers the possibility that changed environmental conditions may not be perceived promptly with the result that a tardy corrective manoeuvre may lead to a reduction in the bank's ability to produce income. Strategic risk is not finally delegated merely to the planning stages of the activity but is an integral part of the operational implementation of the strategy. In fact it also concerns the possibility that the strategy decided at the Institute level may be badly applied or partially applied, thus causing a decrease in the value expressed by the Group.

The Group is currently present in four central eastern European countries. This fact means for the Group that strategic risk includes Country Risk which refers to the following two cases:

- Economic Risk, or the risk that a macroeconomic drop in one nation can lead to a contraction/loss of profitability in the Bank;
- Political Risk, that is, the risk that internal country political events may cause a loss in value of the foreign subsidiary of the Group (nationalisation, uprisings, limitations on transfers abroad of currency ...).

With reference to Country Risk, the Parent Company continuously assesses the need for insurance coverage to sterilise the effect of any sudden deterioration in the political situation in the Countries

where it operates, guaranteeing the amount of capital invested in the country (both with regard to the equity component and to loans to the foreign subsidiary) against any political risks.

From the organisational point of view, the Parent Company:

- verifies the suitability of the facilities in the foreign subsidiaries both through projects aimed at improving the computer infrastructure and through guaranteeing an organisational structure able to meet the needs for control and coordination of the Parent Company;
- supervises the verification of the adequacy of its own structures dedicated to monitoring and coordination of the foreign banks in terms of both numbers of resources committed and of the degree of integration of the summary systems.

In order to adequately monitor the strategic risk and mitigation control process, the Veneto Banca Group uses a series of qualitative and quantitative instruments/indicators which change according to the risk components being reviewed:

1. Changes in the operational context:
  - a. Income Indicators;
  - b. Market scenario identifying indicators;
  - c. Evidence of the most significant market evolutions;
2. Erroneous corporate decisions:
  - a. Support analysis (swot analysis; business plan initiative...);
  - b. Decision-making process (formalisation of strategic decisions; assessment of capital absorbed; stress test business plan);
3. Inadequate implementation of decisions:
  - a. Operational plan (level of detail of planning activities; correct workload identification; project activity progress reports);
  - b. Implementation process (assignment of planning responsibilities; communication of objectives);
4. Reactivity vis à vis evolutions in the competitive context:
  - a. Monitoring/updating the plan;
  - b. Re-directing actions (based on project activity progress reports, changes in the competitive scenario).

Strategic risk assessment, given its nature, is carried out through qualitative/quantitative analysis based on deviation trends between forecast data and final results. This analysis performed at the consolidated level also includes more circumscribed strategic initiatives and is aimed at measuring not only the achievement of objectives but also the robustness of the underlying assumptions of the plan.

The objective of the verifications after the fact is to assess the ability of the Bank to formulate and set in place value-producing strategies and to set itself achievable goals that are consistent and can be modified depending on changed market conditions.

The reports produced mostly involve income indicators at both the consolidated and the single legal entity levels. A specific annual analysis is produced of the deviations between the Strategic Plan and the final balances whereas on a monthly basis, monthly budgetary data are compared with monthly balances. The addressees of this reporting are the Managing Director for reporting at the consolidated and single legal entity level and the General Divisions of the various companies for the parts concerning them. The Parent Company continuously evaluates the possibility of providing the group with even more accurate reporting to monitor the other analytical dimensions in addition to income indicators. Special care must be taken in preparing and monitoring Operational Plans as well as in verification of the strategic initiatives not only on the annual horizon but also for longer periods of time. The addressees of this reporting are the Managing Director and the corporate functions involved.

For the purpose of facilitating and directing management and mitigation activities, Strategic Risk monitoring uses an approach that pinpoints the factors that can influence it or determine its onset in relation to the process phases.

The recording is done using a qualitative assessment methodology of the expert type (scorecard approach).

The assessment form is broken down into a series of selected questions with the aim of highlighting single aspects that can describe the onset of risk within the strategy planning and implementation process. The scorecard has four distinct phases, that is:

- Phase 1: interpretation in a competitive context;
- Phase 2: assessment of corporate decisions;
- Phase 3: assessment of the phase during its realisation;
- Phase 4: reactivity of the strategic lines when the context changes.

On the basis of points earned in each phase, an overall score is obtained and standardised on a rising scale of risk value levels from 1 to 5. The activities for which the reporting systems are still in progress are not assigned points and are not considered in the score weighting. On the basis of the score levels reported and the evidence emerging during assessment, any strategies or corrective or mitigation



actions needed are identified. Periodically through repeating the assessment, the effectiveness of the actions taken is verified and the weights to ascribe to single risk factors may be redefined.

## REPUTATIONAL RISK

### General aspects, reputational risk management processes and measurement methods

The "Reputational Risk" is defined as the present or prospective risk of a drop in profits or capital deriving from a negative perception of the image of the bank by customers, counterparties, shareholders of the bank, investors or supervisory authorities.

Reputational risk:

- is associated neither with a specific accounting item – as it is not of an economic nature – nor with a certain hierarchical level or process or function, but may involve the most various levels/processes/functions;
- has features of a structural/permanent kind;
- cannot be defined as a pure risk, but presents itself as a second level risk (it occurs, in fact, following an event of operating, strategic, compliance risk, etc.); it is, however, a risk of primary importance because it is capable of causing the bank to be forced out of the competitive arena;
- is a risk which is difficult to model analytically;
- is a risk which can be mitigated controlling and managing internally the events that generate it;
- is a risk which is never completely controllable, because it depends also on factors external to the Bank's operations (think of the impact which the reputation of the entire industry can have on the reputation of each operator), so that it must be monitored permanently in order to be able to intervene effectively and promptly.

As this risk is difficult to quantify, it is indispensable to ensure "upstream":

- an adequate level of awareness of the top management bodies on the significance of the issue;
- effectiveness in implementing actions decided by the top management of the Group;
- promotion of a culture of ethical behaviour and correct conduct;
- adequate management of relations with stakeholders (shareholders, customers, employees and counterparties);
- effectiveness and efficiency of the internal control system (ICS), which ensures substantial and not just formal observance of the legislative framework of reference and of the commitments assumed voluntarily by the Group governed by the Internal Code of Ethics and Behaviour;
- suitability of the risk management and containment systems (minimization of the causes and – after the fact – of any damage and assessment of the opportunity of specific hedging of assets).

The assessment and management of the risk require a preliminary check on the existence of an adequate internal commitment, with particular reference to the framework of corporate governance and the strategic decisions on the subject of fixing the risk appetite (the level of risk that the bank has decided to assume). This also in the light of the attention paid to corporate reputation on the part of the shareholders/partners, who are interested in rigorous monitoring of reputational risks, with which they tend to associate (and therefore demand) a probability of occurrence of zero.

The Basel Committee did not lay down any specific capital requirement to cover reputational risk, envisaging only *moral suasion* in its prevention.

In effect it would be difficult to provide for an ad hoc capital requirement for this risk, owing above all to the difficulty of measuring it and to the close link between operating losses and reputational losses; a circumstance which entails the possibility of counting losses twice and therefore a double gearing of capital.

On the other hand, we cannot ignore the implications that a reputational loss can have in terms of lower profits and higher costs.

Factors mitigating the risk are therefore prevention and good governance.

As this is a composite risk, the result of events that arise from a plurality of contexts, reputational risk is managed in accordance with a "building block" approach.

Causes of reputational risk:

- non-observance/infringement of external regulations: laws, regulations and measures (Bank of Italy, Consob, MEF, ...) and standards in the industry (ABI, ...);
- transparency for customers;
- institutional messages;
- diffusion of a culture of service (professional ethics and quality of service);
- non-observance/infringement of internal regulations;
- reputational impact of operating impacts;
- corporate strategies;
- conduct of the top management bodies;
- incorrect awareness of the top management bodies on exposure to significant risks;
- inadequacy/ineffectiveness of decision-making processes;
- operation of the internal control system (ICS);

- badly-designed or inadequate bonus and remuneration systems;
- claims of stakeholders (claims received by the internal service or sent directly to Consob, the Bank of Italy or activation by customers of out-of-court resolution of disputes);
- missing, inadequate or incorrect information flows to the exterior;
- shortcomings of external control (Supervisory Authority);

In the Veneto Banca Group these have been grouped together into the following macro-sources of reputational risk:

- the risk of non-compliance with standards/regulations (compliance risk)
- strategic risk
- corporate governance
- customer claims
- new products
- legal risk

within these the operational risks<sup>4</sup> which can affect "reputation" are identified.

### Compliance risk

The risk of not complying with regulations is the risk of incurring judicial or administrative sanctions, significant financial losses or damages as a consequence of the infringement of laws or regulations, or the provisions of self-regulation or codes of conduct. To this end of particular significance is the establishment within banks and banking groups of an auditing unit devoted to monitoring and controlling compliance".<sup>5</sup>

In this context, for the purposes of the prevention/mitigation of the associated reputational risk, it becomes important on the one hand to promote a corporate culture based on principles of honesty, correctness and observance of the rules, and on the other to put in place specific organizational monitoring with the aim of ensuring observance of the legislative prescriptions and self-regulation.

In fact:

- the adoption of strong organizational monitoring of compliance risk (establishment of a corporate unit and appointment of a manager) contributes also to the protection of the company's image, the loss of which is one of the events to which reputational risk is sensitive;
- compliance risk refers above all to the most significant legislative provisions for the banking business, that is those regarding the exercise of broking activities, the management of conflicts of interest, transparency in customer relations and, more generally, the regulations protecting consumers<sup>6</sup>.

In the Group the organizational unit responsible for the coordination, management and monitoring of compliance risk is the Compliance Unit, which plays the role of second level auditing unit. The regulatory areas it oversees are contained in the Mandate conferred on it by the Board of Directors of the Parent Company on 16 April 2008.

The effects of compliance risk are:

- administrative sanctions (fines);
- prohibitions and/or disciplinary measures;
- losses of assets and legal losses (disputes with customers);
- damage to reputation and image.

### Strategic risk

Strategic risk is defined as the present or prospective risk of lower earnings or capital arising from changes in the operating context or incorrect business decisions, inadequate implementation of decisions, or failure to react adequately to changes in the competitive scenario.

Its effect on reputational risk may derive from:

- errors in the choice of markets or in the commercial positioning of the Bank;
- purchasing or equity investment decisions, if we are looking at a company that up to that time has not worked well from the point of view of correctness and/or transparency;
- incorrect dividend policies;
- failure to observe the capital ratios (risk appetite) communicated to the exterior, that is capital inadequacy;
- commercial and operating decisions excessively imbalanced towards short-term objectives.

The corporate unit responsible for the monitoring of strategic risk is the Central Budget and Control Unit, which is part of the Central Planning and Control Department.

### Corporate governance

As part of a wide-ranging regulatory system regarding corporate organization and governance, the Bank of Italy has paid particular attention to the role and operation of the bodies of administration and control and to the relations between these and the corporate framework, fixing general rules and giving autonomy to intermediaries in the concrete identification of the most suitable solutions for implementing

<sup>4</sup> They are the risks of losses deriving from the inadequacy or failure of internal processes, people and systems or from external events (including among these risks legal risk, but explicitly excluding strategic and reputational risks) – Source: Basel Committee

<sup>5</sup> Source: Bank of Italy, Supervisory Instructions, "the compliance unit", 10 July 2007.

<sup>6</sup> Source: Bank of Italy, Supervisory Instructions, "the compliance unit", 10 July 2007.

them, to enable them to make decisions regarding corporate governance on the basis of the features in term of dimensions, organization and business of the company<sup>7</sup>.

The general principles set forth concern:

- the clear distinction of roles and responsibilities;
- the appropriate balancing of powers;
- the balanced composition of the corporate bodies;
- the effectiveness of controls;
- monitoring of all the business risks;
- adequacy of the information flows.

In our business it is the Parent Company which has the responsibility to define the governance model and to ensure the overall consistency of the framework of governance of the Group, establishing first and foremost adequate methods of communication between the corporate bodies, the structures and the corporate units of the different components of Group. On 23 June 2009 the Board of Directors of the Parent Company approved the "Corporate Governance Project of Veneto Banca and of the VB Group", and this was subsequently examined by the Boards of Directors of the subsidiary banks.

The Governance Model therefore regulates:

- the administration and control system chosen (submitted for the approval of the shareholders' meeting);
- the duties and powers of the corporate bodies;
- the composition and operation of the corporate bodies;
- the mechanisms of remuneration and incentives;
- the information flows.

The objective sensitivity and strategic/operational "weight" of the issue make it inevitably a "source" of reputational risk; this also in consideration of the fact that all of the above must be adequately made public.

#### **Customer claims: management process**

As far as this point is concerned of primary importance is careful monitoring of the level of customer satisfaction in relations with the Bank. To this end the analysis and management of claims are both an indicator of the critical areas as regards the quality of the offer and the service, and an opportunity to re-establish an adequate level of satisfaction in customer relations.

To monitor and manage customer claims, mitigating their consequences in reputational terms, the Veneto Banca Group has put in place organizational mechanisms capable of:

1. responding promptly and completely to customer requests
2. informing adequately the Corporate Bodies responsible for management and control of the Group and of the single legal entities.

With the adoption of the new structure of the Veneto Banca Group, all written customer claims are managed in a centralized manner by the Group Claims Unit which, in investigating the claims received, contacts directly the branch that has the relationship with the claimant customer, requesting information and documentation in relation to the position and events challenged, and formulates the responses to the claims formalized.

The process relating to claims, containing the principles which the organizational units must comply with and governed by specific internal regulations, envisages the following operational indications:

- a. verbal customer claims, above all those concerning the application of conditions, are managed by the branch, holding to the principles of professional and ethical correctness and assessing carefully the interests involved, both those of the business and those of customers;
- b. customers who require a formal response in writing are invited to send to the Group Claim Unit a detailed written claim on specific standard forms prepared by the Bank. Claims sent exclusively to third parties (Bdl, Consob, ...) and subsequently forwarded by them to the Bank are also treated in the same way;
- c. if customers are not satisfied by the response received they can activate the out-of-court dispute resolution process, pursuant to section 2.3.4.1 below. If they decide instead to reply to the Claims Office the process described does not change and is repeated;
- d. any further written requests by customers are dealt with by the Group Claims Office, unless there are "writs of summons", in which case the file must be passed on to the Legal and Disputes Unit.

Every six months, in a written report, accompanied by the appropriate statements, the Group Claims Office informs the Board of Directors and the Board of Statutory Auditors of the Parent Company on the development of non-financial claims, in terms of numbers and economic implications.

A copy of the report is sent to the Group Compliance Unit.

Every six months the Group Compliance Unit also informs the same Bodies in a written report on the claims relating to investment services received in the six-month period.

Once a year, on the basis of feedback from the ABI Claims Monitoring Service, the Group Claims Office monitors the position of the Group banks with respect to the Banking System, making it possible to highlight the main critical issues in terms of products/services involved and types of claim. The results of the analysis are shared with the Compliance Unit.

<sup>7</sup> Source: Bank of Italy, "Supervisory Regulations on the Organization and Corporate Governance of Banks" (letter N° 266623 of 4 March 2008) and subsequent "Note of Clarifications" (letter N° 197183 of 24 February 2009).

**Management/placement of Products with customers**

On this point, an Operational Process of "Examination and authorization of new products" was formalized for the examination and assessment of proposals for trading/marketing of new products and/or activation of new markets/counterparties.

The aim is to ensure that the adoption of new products, financial instruments or services and the activation of new markets or new marketing agreements with other companies takes place with due consideration of all legislative, management and commercial aspects; this with reference to financial risk, the production process, organizational oversight and, finally, the features of the product and the type of customer to which it caters.

This work is done by the proposing unit and by those involved each time, each as far as it is responsible, through analysis of the strategic, commercial, operational and legal aspects associated with the release of a new product and/or the provision of a new service, both for the Group as a whole, and for the individual banks.

The proposing unit must then verify the correct process of definition of the product or service being proposed for all areas of feasibility, as better defined by the internal regulations (i.e. financial sustainability, definition of the supporting instruments and processes, compliance with the legislation, definition of the internal operating rules, observance of the risk policies).

With this process of management of new products, which is used also for the assessment of those already existing, the Group is already aligned with the provisions of the Supervisory Authority in the document for consultation on "Transparency of Banking Operations and Services"<sup>8</sup>.

**Legal risk**

Legal risk is the risk of losses or reduction in the value of assets and/or of operating difficulties associated in any way with contract forms or legal documents which are inadequate or incorrect or that contain clauses which are found to be particularly burdensome.

This risk therefore directly involves commercial or contractual aspects of the business<sup>9</sup> and can cause economic damage noticeable also in the short term.

In the context of the banking business, the legal risk may have various immediate causes, depending on the different role assumed from time to time by the Group (service provider, lender, purchaser of goods and services etc.), such as:

- responsibilities arising from the adoption of contracts for the provision of banking and/or investment services not in line with the current legislation (nullity, ineffectiveness ...);
- responsibilities arising from the execution of contracts pursuant to the previous point, from the methods and contents of performance of the service, from the options of withdrawal and termination;
- ineffectiveness of the process of recovery of credit claims (revocation of credit facilities, enforcement of guarantees...);
- unplanned management of instruments and methods of recovery and valuation of receivables and warranty and litigation risks;
- responsibilities arising from the signing, execution, withdrawal from and termination of contracts with suppliers and/or consultants and/or professionals and from the preparation and exchange with the same of documents not adequately assessed.

As mentioned in the introduction, legal risk, unlike compliance risk, is therefore essentially associated with the contractual, extra-contractual (activity in preparation for the signing) and commercial aspects; it regards mainly laws and the external regulations which complete them and refers to a context of private law relations.

The corporate unit responsible for monitoring legal risk is the Disputes Department, which, in the context of the work of preparation of the contractual forms of a banking/financial nature makes use also of the operational collaboration of the organizational and auditing functions of the corporate compliance unit.

As already pointed out, by nature reputational risk is hard to measure, but can however be subjected to processes of detection, assessment and mitigation.

In the absence of historical series and of best practices of reference relating to the monitoring of reputational risk an approach was chosen which, after defining the main sources of generation, highlights the factors that may influence or determine its arising.

Preventive monitoring of events giving rise to reputational risk is fundamental; there may in fact be latent signs for long periods – such as, for example, complaints by customers or employees - which, if "neglected", may lead to real and proper reputational crises.

The following can have an impact on reputational risk:

- the internal regulatory framework (which includes systems for auditing and attenuating risk);
- the significant business processes;
- the internal information flows;
- the corporate conduct associated with reputational risk.

For this purpose particular attention is paid to:

<sup>8</sup> Bank of Italy, Documents for Consultation, "Transparency of Banking and Financial Transactions and Services" and "Correctness of Relations between Intermediaries and Customers", Explanatory Report (page 31, section 3.15 "Organization, Procedures and Internal Controls" – Innovations – "Packaging" of new products). March 2009.

<sup>9</sup> Unlike "legislative" risk which involves relations between the Group and the Authorities, primarily the Supervisory Authorities.

- completeness of the mapping of business processes, with the aim of limiting the occurrence of risk factors and assigning certain and well-defined responsibilities for the purposes of governance of such risks;
- the promptness and effectiveness of actions when situations of conflict arise;
- a careful process of selection, assessment, training and development of the Bank's personnel;
- conformity of the processes of external communication with principles of correctness and transparency and assignment to a determined unit of the duties of coordination and control of such activities (External Relations Service and Advertising and Image Service);
- continual attention to all stakeholders, primarily shareholders and customers (through indices of customer satisfaction, retention, claims), but also employees (indices of competence and satisfaction) and counterparties, developing correct relations founded on reciprocal trust;
- acceptance of codes of conduct (internal and industry-wide) and verification of actual dissemination and application of the same within the business;
- the care taken in the construction of bonus systems, excluding elements that may also indirectly give rise to non-compliant conduct on the part of operators.

To enable the Bank to perform effective monitoring of risk factors there must be:

- uniform criteria (between the Compliance and Internal Audit Units) of assessment in advance of the degree of exposure of the Group to compliance and reputational risks in relation to a given law (compliance risk assessment and self-assessment);
- uniform criteria (between the Compliance and Risk Management Units) of detection after the fact of compliance and reputational events (recording the frequencies of occurrence), of measurement after the fact of financial losses deriving directly or indirectly from such events (measurement of loss data) and of comparison between such data and any historical series available (analysis of performance trends).

In this context the work of the Compliance Unit can be seen as action of a *bottom up* kind, which starts from the corporate business processes with the aim of assessing the degree to which they correspond to the legislation and preparing the corrective plans necessary to remove the gaps found, divided into the following stages:

- 1) assessment of the risk inherent in a certain corporate activity;
- 2) assessment of the controls in place for the mitigation of the risk, of the degree of coverage provided by these and of the degree of "error" inherent in them<sup>10</sup>;
- 3) preparation of the corrective action plan, deriving from assessment of the distance (gap analysis) between the level of risk estimated and the level of risk considered acceptable (that is manageable and tolerable by the bank), which describes the organizational measures proposed for mitigation of the gap detected.

Reputational risk has therefore been identified with a semi-qualitative measurement technique (scoring); this is better because it enables assessment of the total risk aggregating the scores attributed to the single risk factors.

Obviously the lack of reliable historical series makes the numerical quantification of perception of the risk hard to define.

On the basis of the results obtained from the assessments carried out, scores are attributed to each assessment and a macro-matrix is created which determines the final score deriving from the intersection between the assessments and the weights attributed to each risk factor, to identify the percentage proportion of the single sources of risk out of the total.

The matrix file is sent every three months by the Compliance Unit to the corporate unit identified as the owner of each risk factor and by this compiled and returned, for the part for which it is responsible, within ten days after it is received.

The Compliance Unit then assembles the data received and calculates the overall proportions; in support of this, it may also use data and information obtained from the internal procedures applied to the different profiles.

The Compliance Unit then produces a summary matrix showing the proportion of the macro-sources of the risk. The two matrices are sent:

- to the Risks Committee of the Holding which, on the basis of the levels of scores assigned and the evidence that has emerged during the assessment, proposes any necessary corrective strategies or actions to be put in place;
- to the management, strategic oversight and auditing bodies for their ratification and for the approval of any corrective strategies and/or actions proposed by the Risks Committee.

This at least every six months and in any case following the occurrence of events that have a particular effect on the risk and that therefore require resolution in a shorter time.

At least once a year the Compliance Unit verifies the effectiveness of the actions taken and if necessary redefines the weights to be attributed to the single risk factors.

<sup>10</sup> Due to the detection of errors that have occurred in the stage of design of the controls or introduced by subsequent changes in the external legislation or organizational regulations of the bank (substantially, failure to update/maintain the auditing structure).

**TABLE 2 – SCOPE OF APPLICATION****QUALITATIVE NOTICE**

This public notice refers to the Veneto Banca Group which is composed as follows:

*Parent Company:* Veneto Banca s.c.p.a. – Montebelluna (TV)

*Group companies:*

| Names      | Registered Offices  | Type of relationship (1) | Shareholding relationship |  | Available votes % (2) |
|------------|---|--------------------------|---------------------------|--|-----------------------|
|            |   |                          | Shareholding relationship | % Stake  |                       |
| <b>A.</b>  | <b>Imprese</b>  |                          |                           |  |                       |
| <b>A.1</b> | <b>Consolidate integralmente</b>                            |                          |                           |  |                       |
| 1.         | Veneto Banca scpa (Capogruppo)                              | Montebelluna             |                           |  |                       |
| 2.         | Air Box srl   | Asolo                    | 1                         | Veneto Banca scpa  | 100.000%              |
| 3.         | Apulia Assicurazioni spa in liquidazione                    | Milano                   | 1                         | BancApulia spa<br>Apulia Service spa                                     | 20.000%<br>80.000%    |
| 4.         | Apulia Finance srl  | San Severo               | 1                         | BancApulia spa   | 51.000%               |
| 5.         | Apulia Finance n. 2 srl                                     | Conegliano               | 4                         | BancApulia spa   | 10.000%               |
| 6.         | Apulia Mortgages Finance n. 3 srl                           | Conegliano               | 4                         | BancApulia spa   | 10.000%               |
| 7.         | Apulia Finance n. 4 srl                                     | Conegliano               | 4                         | BancApulia spa   | 10.000%               |
| 8.         | Apulia Finance n. 5 Cessioni srl                            | Conegliano               | 4                         | Apulia Prontoprestito spa  | 10.000%               |
| 9.         | Apulia Previdenza spa                                       | Milano                   | 1                         | BancApulia spa<br>Apulia Service spa                                     | 20.000%<br>80.000%    |
| 10.        | Apulia Prontoprestito spa                                   | San Severo               | 1                         | BancApulia spa   | 70.458%               |
| 11.        | Apulia Service spa  | San Severo               | 1                         | BancApulia spa   | 100.000%              |
| 12.        | B.C. Eximbank s.a.  | Chisinau                 | 1                         | Veneto Banca scpa  | 100.000%              |
| 13.        | BancApulia spa  | San Severo               | 1                         | Veneto Banca scpa  | 50.787%               |
| 14.        | Banca Intermobiliare di Investimenti e Gestioni spa         | Torino                   | 4                         | Co.Fi.To. spa<br>Veneto Banca scpa                                       | 52.634%<br>2.389%     |
| 15.        | Banca IPIBI Financial Advisory spa                          | Milano                   | 4                         | Banca Intermobiliare di Investimenti e Gestioni spa<br>Veneto Banca scpa | 67.283%<br>20.254%    |
| 16.        | Banca Italo-Romena spa                                      | Treviso                  | 1                         | Veneto Banca scpa  | 76.000%               |
| 17.        | Bim Fiduciaria spa  | Torino                   | 4                         | Banca Intermobiliare di Investimenti e Gestioni spa                      | 100.000%              |
| 18.        | Bim Immobiliare srl   | Torino                   | 4                         | Banca Intermobiliare di Investimenti e Gestioni spa                      | 100.000%              |
| 19.        | Bim Insurance Broker spa                                    | Torino                   | 4                         | Banca Intermobiliare di Investimenti e Gestioni spa                      | 51.000%               |
| 20.        | Bim Intermobiliare di Investimenti e Gestioni (Suisse) S.A. | Lugano                   | 4                         | Banca Intermobiliare di Investimenti e Gestioni spa                      | 100.000%              |
| 21.        | Cassa di Risparmio di Fabriano e Cupramontana spa           | Fabriano                 | 1                         | Veneto Banca scpa  | 53.126%               |
| 22.        | Claren Immobiliare srl                                      | Montebelluna             | 1                         | Veneto Banca scpa  | 100.000%              |
| 23.        | Clariss Assicurazioni srl                                   | Montebelluna             | 1                         | Veneto Banca scpa  | 100.000%              |
| 24.        | Clariss Cinque spa  | Montebelluna             | 1                         | Veneto Banca scpa  | 100.000%              |
| 25.        | Clariss Factor spa  | Montebelluna             | 1                         | Veneto Banca scpa  | 100.000%              |
| 26.        | Clariss Leasing spa   | Treviso                  | 1                         | Veneto Banca scpa  | 100.000%              |
| 27.        | Co.Fi.To. spa   | Torino                   | 4                         | Veneto Banca scpa  | 40.000%               |
| 28.        | Immobiliare D srl   | Milano                   | 4                         | Banca Intermobiliare di Investimenti e Gestioni spa                      | 100.000%              |
| 28.        | Immobiliare Italo Romena srl                                | Bucarest                 | 1                         | Veneto Banca scpa  | 100.000%              |
| 30.        | Italo Romena Leasing IFN s.a.                               | Bucarest                 | 1                         | Veneto Banca scpa  | 100.000%              |
| 31.        | Patio Lugano sa   | Lugano                   | 4                         | Bim Intermobiliare di Investimenti e Gestioni (Suisse) S.A.              | 100.000%              |
| 32.        | Symphonia SGR spa   | Milano                   | 4                         | Banca Intermobiliare di Investimenti e Gestioni spa                      | 100.000%              |
| 33.        | Veneto Banka d.d.   | Zagabria                 | 1                         | Veneto Banca scpa  | 100.000%              |
| 34.        | Veneto Banka sh.a.  | Tirana                   | 1                         | Veneto Banca scpa  | 100.000%              |
| 35.        | Veneto Ireland Financial Services Ltd                       | Dublino                  | 1                         | Veneto Banca scpa  | 100.000%              |

**Legend:**

Type of relationship:

- 1 = majority voting rights in ordinary meeting
- 2 = dominant influence in the ordinary meeting ((subsidiaries)
- 3 = agreements with other shareholders
- 4 = other forms of control
- 5 = joint control

(2) Votes available in the ordinary meeting. Unless otherwise stated, the stake corresponds to the percentage availability of votes in the meeting.

The consolidation area for prudential purposes, the parameters of which are determined in compliance with supervisory legislation in force, allows for integral consolidation of all the companies directly controlled by the parent company.

The value of stakes held in insurance companies is deducted from the regulatory capital in a proportion equal to or higher than 20% and in finance companies in proportions equal to or higher than 10%; similarly the sum of said values is not considered among the activities with weighted risk.

The area of consolidation for balance sheet purposes includes the companies in which the parent company directly or indirectly holds the majority of voting rights, those in which it holds stakes of between 20% and 50% or, even in the case of minority profit-sharing, when one or more of the following circumstances recur:

- a) significant representation on the Board of Directors or in an equivalent body of a subsidiary of members who are the expression of the Veneto Banca Group;
- b) participation in the decision-making process, including participation in decisions relating to the allocation of profits and distribution of dividends;
- c) the occurrence of large transactions between shareholder and shareholding;
- d) the interchange of management personnel;
- e) the supply of essential technical information.

It is noted that within the Group there are no current or foreseeable impediments which would hinder the rapid transfer of asset resources or funding.

It is specified that since the Group does not report asset shortfalls at the consolidated level, the Parent Company and the other Group banks and financial companies reduce their own capital requirements by 25% on an individual basis pursuant to the supervisory measures in force.

For the calculation of consolidated capital for supervisory purposes, reference is made only to the data relating to banking, financial and instrumental companies belonging to the banking group. Such data also include asset and liability relationships (on and off the balance sheet) of the balance sheet and the profit and loss account with other companies included in the consolidation of the balance sheet which were the object of the elision.

With respect to the situation at 31 December 2009, consolidation scope has changed as a result of the acquisition of the control of Cassa di Risparmio di Fabriano e Cupramontana spa and the business combination that involved Banca Meridiana spa through a merger operation by incorporation of the same into BancApulia, which allowed the entry of BancApulia and its subsidiaries into Veneto Banca Group. Another significant change refers to the inclusion of the Co.Fi.To. Group and its subsidiaries within the scope of consolidation and, in particular, the inclusion of Banca Intermobiliare di Investimenti e Gestioni spa (BIM).

Meanwhile, the subsidiary Claris Broker spa has been sold during 2010.

Herewith follows a table illustrating the composition of the area of consolidation for balance sheet and prudential purposes specifying, in the first case, the methodologies of consolidation, and in the second, the calculation of prudential capital requirements.

**Area of consolidation at 31 December 2010 for balance sheet and prudential purposes and other entities deducted from capital for supervisory purposes**

| Names   | Registered Offices | Type of activity | Type of relationship (*) | % Stake  | Consolidation for IAS/IFRS balance sheet purposes | Treatment for prudential supervisory purposes |   |
|---|--------------------|------------------|--------------------------|----------|---|---|---|
|   |                    |                  |                          |          |   | Consolidation                                 | Deduction from Capital for Supervisory Purposes |
| Veneto Banca Holding scpa (Capogruppo)                      | Montebelluna       | Banking          |                          |          | Full  | Full  | No  |
| Air Box srl   | Treviso            | Non Financial    | 1                        | 100.000% | Full  | Full  | No  |
| Apulia Assicurazioni spa in liquidazione                    | Milano             | Insurance        | 1                        | 100.000% | Full  | Full  | No  |
| Apulia Finance srl  | San Severo         | Financial        | 1                        | 51.000%  | Full  | Full  | No  |
| Apulia Finance n. 2 srl                                     | Conegliano         | Financial        | 1                        | 10.000%  | Full  | Full  | No  |
| Apulia Mortgages Finance n. 3 srl                           | Conegliano         | Financial        | 1                        | 10.000%  | Full  | Full  | No  |
| Apulia Finance n. 4 srl                                     | Conegliano         | Financial        | 1                        | 10.000%  | Full  | Full  | No  |
| Apulia Finance n. 5 Cessioni srl                            | Conegliano         | Financial        | 1                        | 10.000%  | Full  | Full  | No  |
| Apulia Previdenza spa                                       | Milano             | Insurance        | 1                        | 100.000% | Full  | Full  | No  |
| Apulia Prontoprestito spa                                   | San Severo         | Financial        | 1                        | 70.458%  | Full  | Full  | No  |
| Apulia Service spa  | San Severo         | Instrumental     | 1                        | 100.000% | Full  | Full  | No  |
| B.C. Eximbank s.a.  | Chisinau           | Banking          | 1                        | 100.000% | Full  | Full  | No  |
| BancApulia spa  | San Severo         | Banking          | 1                        | 50.787%  | Full  | Full  | No  |
| Banca Intermobiliare di Investimenti e Gestioni spa         | Torino             | Banking          | 1                        | 55.023%  | Full  | Full  | No  |
| Banca IPBI Financial Advisory spa                           | Milano             | Banking          |                          | 87.537%  | Full  | Full  | No  |
| Banca Italo-Romena spa                                      | Treviso            | Banking          |                          | 76.000%  | Full  | Full  | No  |
| Bim Fiduciaria spa  | Torino             |                  |                          | 100.000% | Full  | Full  | No  |
| Bim Immobiliare srl   | Torino             | Instrumental     |                          | 100.000% | Full  | Full  | No  |
| Bim Insurance Broker spa                                    | Torino             | Non Financial    |                          | 51.000%  | Full  | Full  | No  |
| Bim Intermobiliare di Investimenti e Gestioni (Suisse) S.A. | Lugano             | Banking          |                          | 100.000% | Full  | Full  | No  |
| Cassa di Risparmio di Fabriano e Cupramontana spa           | Fabriano           | Banking          |                          | 53.126%  | Full  | Full  | No  |
| Claren Immobiliare srl                                      | Montebelluna       | Instrumental     |                          | 100.000% | Full  | Full  | No  |
| Clariss Assicurazioni srl                                   | Montebelluna       | Non Financial    |                          | 100.000% | Full  | Full  | No  |
| Clariss Cinque spa  | Montebelluna       | Financial        |                          | 100.000% | Full  | Full  | No  |
| Clariss Factor spa  | Montebelluna       | Financial        |                          | 100.000% | Full  | Full  | No  |
| Clariss Finance 2003 srl                                    | Roma               | Financial        |                          | 4.000%   | Full  | Full  | No  |
| Clariss Finance 2005 srl                                    | Roma               | Financial        |                          | 5.000%   | Full  | Full  | No  |
| Clariss Finance 2006 srl                                    | Conegliano         | Financial        |                          | -        | Full  | Full  | No  |
| Clariss Finance 2007 srl                                    | Conegliano         | Financial        |                          | -        | Full  | Full  | No  |
| Clariss Finance 2008 srl                                    | Conegliano         | Financial        |                          | -        | Full  | Full  | No  |
| Clariss Finance 2009 srl                                    | Conegliano         | Financial        |                          | -        | Full  | Full  | No  |
| Clariss Lease Finance srl                                   | Conegliano         | Financial        | 4                        | -        | Full  | Full  | No  |
| Clariss Leasing spa   | Treviso            | Financial        | 4                        | 100.000% | Full  | Full  | No  |
| Co.Fi.To. spa   | Torino             | Financial        | 4                        | 40.000%  | Full  | Full  | No  |
| Immobiliare D srl   | Milano             | Instrumental     | 4                        | 100.000% | Full  | Full  | No  |
| Immobiliare Italo Romena srl                                | Bucarest           | Instrumental     | 4                        | 100.000% | Full  | Full  | No  |
| Intra Mortgage Finance 1 srl                                | Milano             | Financial        | 4                        | 5.000%   | Full  | Full  | No  |
| Italo Romena Leasing IFN s.a.                               | Bucarest           | Financial        | 1                        | 100.000% | Full  | Full  | No  |
| Patio Lugano sa   | Lugano             | Instrumental     | 4                        | 100.000% | Full  | Full  | No  |
| Symphonia SGR spa   | Milano             | Financial        | 1                        | 100.000% | Full  | Full  | No  |
| Veneto Banka d.d.   | Zagabria           | Banking          | 1                        | 100.000% | Full  | Full  | No  |
| Veneto Banka sh.a.  | Tirana             | Banking          | 4                        | 100.000% | Full  | Full  | No  |
| Veneto Ireland Financial Services ltd                       | Dublino            | Finanziaria      | 1                        | 100.000% | Full  | Full  | No  |
| Bim Vita spa  | Torino             | Insurance        | 2                        | 50.000%  | Net assets  | Net assets                                    | Yes   |
| Eta Finance spa   | Vicenza            | Financial        | 2                        | 30.000%  | Net assets  | Net assets                                    | Yes   |
| MGP srl   | Treviso            | Financial        | 2                        | 24.500%  | Net assets  | Net assets                                    | Yes   |
| Sec Servizi scpa  | Padova             | Instrumental     | 2                        | 26.293%  | Net assets  | Net assets                                    | No  |
| Sintesi 2000 srl  | Milano             | Non Financial    | 2                        | 33.333%  | Net assets  | Net assets                                    | No  |

Ai fini del trattamento prudenziale sono inoltre portate in deduzione al patrimonio:

|                      |        |           |         |                  |                  |     |
|----------------------|--------|-----------|---------|------------------|------------------|-----|
| Symphonia SICAV      | Milano | OICR      | -       | Not consolidated | Not consolidated | Yes |
| Symphonia Multisicav | Milano | OICR      | -       | Not consolidated | Not consolidated | Yes |
| Ver Capital Sgr      | Milano | Financial | 16.000% | Not consolidated | Not consolidated | Yes |

**Legend:**

- (1) Type of relationship:  
1 = majority voting rights in ordinary meeting  
2 = dominant influence in the ordinary meeting ((subsidiaries)  
3 = agreements with other shareholders  
4 = other forms of control  
5 = joint control



## TABLE 3 - COMPOSITION OF CAPITAL FOR SUPERVISORY PURPOSES

### QUALITATIVE NOTICE

In 1988 the Basel Committee introduced the concept of risk capital while Community Directive 2000/12/EC laid down the general lines for European regulation aimed at limiting the default risk of financial intermediaries. On the basis of Community indications, Bank of Italy, starting in 1992, established capital adequacy ratios which financial intermediaries must be able to guarantee.

Supervisory capital constitutes the main point of reference in the assessments of the Supervisory Body on the stability of individual banks and the banking system in general. It is the basis for the most important prudential control instruments such as the solvency ratio, the requisites against market and operational risk and the rules on risk concentration and transformation of maturity dates. Specifically, capital adequacy in a bank is assessed in relation to the amount of the ratio between the supervisory capital (composed of the asset base, the supplementary assets and Tier three assets) and the total of the weighted risk activities. On a consolidated basis, the supervisory capital must not be less than 8% of the weighted risk activities.

#### 1. Capital base

The following table summarises the main contractual characteristics of the innovative capital instruments composing the capital base together with the traditional components composed of capital, surplus issue, reserves and the quota of profit allocated to reserves after deduction of shares or proprietary stakes, of intangible assets and any losses recorded in previous years.

| Characteristics of financial instruments                | Interest rate                                  | Step-up | Issue date | Maturity date | Early repayment starting on | Nominal residual amount (Euro/000) | Amount of balance sheet at 31/12/2010 | Contribution to supervisory capital |
|---|--|---------|------------|---------------|-----------------------------|------------------------------------|---------------------------------------|-------------------------------------|
| Preference shares                                       | 6.411% fixed; from 21/12/2017 Euribor 3m+2.75% | Yes     | 21/12/2007 | perpetual     | 21/12/2017                  | 162,250                            | 178,786                               | 159,371                             |
| <b>Totale strumenti innovativi computabili (Tier I)</b> |  |         |            |               |                             | <b>162,250</b>                     | <b>178,786</b>                        | <b>159,371</b>                      |

The preference shares are, in respect of current legislation, calculated in the asset base within its 15% limit and any excess is calculated in the supplementary assets.

#### 2. Supplementary assets

The supplementary assets are, as a rule, composed of revaluation reserves, hybrid instruments for increasing company equity and subordinate liabilities. Supplementary assets do not have to be greater than the asset base.

The solvency ratio must be calculated on the sum of tier I capital and tier II capital, net of equity investments in financial companies and insurance companies, hybrid equity increase instruments, and subordinated loans to said entities.

The following table shows the main contractual characteristics of subordinate financial instruments in place at the year end and calculated for purposes of supplementary assets.

| Characteristics of financial instruments | Interest rate                                      | Step-up | Issue date | Maturity date | Advance repayment starting on | Nominal residual amount (Euro/000) | Amount in balance sheet at 31/12/2010 | Contribution to supervisory capital |
|--|--|---------|------------|---------------|-------------------------------|------------------------------------|---------------------------------------|-------------------------------------|
| Subordinate convertible bond issue       | 1.25 % fixed                                       | No      | 1/7/2005   | 1/10/2012     | No                            | 370                                | 358                                   | 397                                 |
| Subordinate bond issue                   | Euribor 6m+0.50%; from 30/12/2008 Euribor 6m+1.00% | yes     | 30/12/2003 | 30/12/2013    | No                            | 28,261                             | 28,227                                | 16,963                              |
| Subordinate bond issue                   | Euribor 3m+0.60%; from 12/11/2009 Euribor 3m+1.20% | yes     | 29/10/2004 | 12/11/2014    | 12/11/2009                    | 94,350                             | 94,592                                | 75,421                              |
| Subordinate bond issue                   | 4.46% fixed  | No      | 9/6/2005   | 9/6/2014      | No                            | 25,000                             | 26,022                                | 20,000                              |
| Subordinate bond issue                   | 4.65% fixed  | No      | 9/6/2005   | 9/6/2015      | No                            | 30,000                             | 30,085                                | 30,000                              |
| Subordinate bond issue                   | Euribor 3m+0.45%; from 21/06/2012                  | yes     | 21/6/2007  | 21/6/2017     | 21/06/2012                    | 87,500                             | 87,076                                | 87,039                              |

|   |  |     |            |            |               |                |                |                |
|---|--|-----|------------|------------|---------------|----------------|----------------|----------------|
|   | Euribor 3m+0.60%                                   |     |            |            |               |                |                |                |
| Subordinate bond issue  | Euribor 3m+0.50%                                   | No  | 1/10/2008  | 1/10/2014  | No            | 114,640        | 115,036        | 114,639        |
| Subordinate bond issue  | Euribor 3m+0.50%                                   | No  | 15/12/2008 | 15/12/2014 | No            | 116,559        | 116,631        | 116,551        |
| Subordinate bond issue  | 4.22% fixed; from 15/5/2014 Euribor 3m+2%          | No  | 15/5/2009  | 15/5/2019  | 15/5/2014     | 75,000         | 75,408         | 75,000         |
| Subordinate bond issue  | 3.895% fixed; from 30/09/2009 Euribor 6m+0.70%     | No  | 30/9/2004  | 30/9/2014  | 30/9/2009     | 48,273         | 48,413         | 38,634         |
| Subordinate bond issue  | Euribor 6m+1.50%; from 15/02/2011 Euribor 6m+1.30% | yes | 15/02/2006 | 15/2/2016  | 15/2/2011 (1) | 21,000         | 21,120         | 20,775         |
| Subordinate bond issue  | Euribor 6m+1%; from 15/4/2013 Euribor 6m+1.80%     | yes | 15/4/2008  | 15/4/2018  | 15/4/2013     | 18,000         | 18,093         | 17,999         |
| Subordinate bond issue  | 6% fixed   | No  | 20/4/2009  | 20/4/2015  | 20/10/2010    | 20,000         | 20,142         | 19,996         |
| Subordinate bond issue  | 1.50% fixed  | No  | 29/7/2005  | 29/7/2015  | No            | 113,421        | 129,202        | 113,421        |
| Subordinate bond issue  | 3.75% fixed  | No  | 16/6/2006  | 16/6/2011  | No            | 2,992          | 3,053          | 2,991          |
| Subordinate bond issue  | 3.75% fixed  | No  | 30/6/2006  | 30/6/2011  | No            | 996            | 1,015          | 996            |
| Subordinate bond issue  | 3.75% fixed  | No  | 18/7/2006  | 18/7/2011  | No            | 1,996          | 2,030          | 1,995          |
| Subordinate bond issue  | 5.1% fixed   | No  | 4/3/2008   | 4/3/2013   | No            | 11,995         | 12,502         | 11,995         |
| Subordinate bond issue  | 5.1% fixed   | No  | 31/3/2008  | 31/3/2013  | No            | 11,980         | 12,443         | 11,980         |
| Subordinate bond issue  | 5.1% fixed   | No  | 15/4/2008  | 15/4/2013  | No            | 5,980          | 6,198          | 5,980          |
| Subordinate bond issue  | 4.25% fixed  | No  | 31/3/2009  | 31/3/2014  | No            | 7,979          | 8,235          | 7,979          |
| <b>Total calculable subordinate instruments (Lower Tier II)</b> |  |     |            |            |               | <b>836,292</b> | <b>856,150</b> | <b>790,752</b> |

(1) The regulation on issuing requires that repayment take place only on 15/02/11.

### 3. Tier three assets

There are no calculable financial instruments in Tier three assets.

The provisions of Circular no. 155/91 "Instructions for completing reports on supervisory capital and its prudential ratios" are intended to harmonise the criteria for determining the supervisory capital and the ratios with international accounting principles. They specifically require the application of the so-called "prudential filters" indicated by the Basel Committee in order to protect the quality of the supervisory capital and reduce the potential volatility of the aggregates following the application of the new accounting principles. Specifically, with reference to the most important aspects, the new measures provide that:

- for financial assets held for trading, both the capital gains and the capital losses transiting the profit and loss account and not realised are fully relevant;
- for the financial assets available for sale, the profit and loss from assessment, after compensation are recorded in a specific reserve of net assets: the balance of that reserve, if negative, reduces the net assets, and if positive, 50% of it contributes to the supplementary assets;
- the revaluation deriving from the re-determination of the cost of the properties carried out during the first application of international accounting principles is calculated entirely in the supplementary assets;
- for liabilities assessed at fair value (fair value option) both the capital gains and the capital losses transiting the profit and loss account and not realised are fully relevant with the exception of the component due to variations in proprietary creditworthiness.

The solvency ratio must be calculated on the sum of the asset base, of the supplementary assets and of tier three assets. When present, equity investments, innovative capital instruments, hybrid instruments for increasing the company's equity and subordinate assets held in other banks and finance companies in amounts of more than 10% of the capital of the body held must be deducted from these aggregates. Stakes in insurance companies and the subordinate liabilities they issue as well as other elements connected with the calculation of capital requirements are also deducted.

## QUANTITATIVE NOTICE

|    |   |                  |
|----|---|------------------|
|    | POSITIVE ELEMENTS IN THE ASSET BASE   |                  |
|    | Share capital   | 515,703          |
|    | Share premium reserve   | 2,173,342        |
|    | Other reserves  | 645,069          |
|    | Profit (self financing share)   | 67,367           |
|    | Innovative capital instruments  | 159,371          |
|    | Other positive filters  |                  |
| A. | TOTAL POSITIVE ELEMENTS IN ASSET BASE   | 3,560,852        |
|    | NEGATIVE ELEMENTS IN ASSET BASE   |                  |
|    | Shares or proprietary stake   | (17,800)         |
|    | Intangible assets   | (1,380,611)      |
|    | Loss for the period   | -                |
|    | Reserves with negative assessment on securities available for sale  | (18,275)         |
|    | Other negative filters  | (2,910)          |
| B. | TOTAL NEGATIVE ELEMENTS IN ASSET BASE   | (1,419,596)      |
|    | ASSET BASE ELEMENTS DEDUCTED  |                  |
|    | Equity interests in financial and credit institutions of more than 20% of the financed entity   | (361)            |
|    | Equity interests in financial and credit institutions of more than 10% and less than 20% of the financed entity                               | (1,977)          |
|    | Equity interests in financial and credit institutions of 10% or less of the capital of the investee entity: equity interests                  |                  |
|    | Equity interests in financial and credit institutions of 10% or less of the capital of the investee entity: hybrid capitalization instruments |                  |
|    | Equity interests in financial and credit institutions of 10% or less of the capital of the investee entity: subordinated instruments          |                  |
|    | Equity investments in insurance companies acquired after 20/07/06   | (8,625)          |
| C. | TOTAL ELEMENTS DEDUCTED FROM ASSET BASE   | (10,963)         |
| D. | <b>TOTAL ASSET BASE (A+B+C)</b>   | <b>2,130,293</b> |
| E. | POSITIVE ELEMENTS IN THE SUPPLEMENTARY ASSETS   | 833,510          |
| F. | NEGATIVE ELEMENTS IN THE SUPPLEMENTARY ASSETS   | (223)            |
|    | Prudential IAS/IFRS filters, other negative elements  | -                |
| G. | SUPPLEMENTARY ASSETS: ELEMENTS DEDUCTED   | (10,963)         |
| H. | <b>TOTAL SUPPLEMENTARY ASSETS (E+F+G)</b>   | <b>822,324</b>   |
|    | ELEMENTS TO DEDUCT FROM ASSET BASE AND SUPPLEMENTARY ASSETS   |                  |
|    | Equity investments in insurance companies acquired before 20/07/2006  | (5,950)          |
| I. | TOTAL ELEMENTS TO DEDUCT FROM ASSET BASE AND SUPPLEMENTARY ASSETS   | (5,950)          |
| L. | <b>SUPERVISORY CAPITAL (D+H+I)</b>  | <b>2,946,667</b> |
| M. | TIER THREE ASSETS   | -                |
| N. | <b>SUPERVISORY CAPITAL INCLUDING TIER THREE ASSETS (L+M)</b>  | <b>2,946,667</b> |

Source: Reporting base 1 – Items 36502--36522

## TABLE 4 - CAPITAL ADEQUACY

### QUALITATIVE NOTICE

Capital adequacy, one of the main strategic objectives of the Group, is subject to constant monitoring by the Parent Company in both the phases of account rendering of management trends and in the annual Budget planning process which is carried out with the approval of the Industrial Plans. Consequently analytical forecasts and verifications of final balances are constantly being done to help maintain an adequate capital surplus which not only complies with minimum capital requirements but also ensures adequate growth margins.

The operations, both ordinary and extraordinary, of the Veneto Banca Group are marked by criteria of prudence, limited risk exposure as much as possible in compliance not only with the need for stability in banking activity but also with the Shareholders' attitude towards risk and by the spirit of mutual cooperation of the Institute.

In order to protect the financial solidity and reputation of the Group from undesired events, the Veneto Banca Group has established structural organisations, processes, resources - human and technological - with the skills to ensure the identification, control and management of all risks related to its characteristic operations. It is specifically noted that the entire process is supervised and coordinated by the Veneto Banca Holding Parent Company where the persons and structures assigned to monitor and manage the various risks are located.

In this process which passes through various levels of the organisational structure, the fundamental role is played by the Parent Company Board of Directors whose task it is to define direction and strategies on risk taking and to approve strategic and operational limits and related guidelines.

The Group Risk Committee whose role and responsibilities are specified and formalised in a specific Regulation supports the Board of Directors and the Managing Director on these matters with regard to the powers conferred on them. The Group Risk Committee in particular assists the Managing Director and the Board of Directors of the Group in formulating strategies and risk policies and supplies the instruments and information needed to make informed decisions. This Committee must propose actions to optimise the utilisation of the capital of the Group and of its individual Companies, maintaining the corporate risk propensity within the limits set by the Board of Directors and implemented by the governance bodies of each individual Company.

The process of assessing financial capital adequacy with respect to the risk assumed has always been central to the strategies and activities of risk governance from both the historical and forecast points of view.

The consistency of this process with annual scheduling and strategic planning is ensured not only by the simultaneousness of drawing up the budget, the three year plan and the asset plan but also by the use of methodologies and measurement criteria leading to uniformity between final figures and the forecast. This basic consistency therefore is followed by the systematic verification during periodic account rendering to ensure that management capital adequacy targets and regulatory ratios are respected. Thus any needed corrective actions to the dynamics under way can be defined as may emerge from the analysis of deviations of final figures from expected figures.

In compliance with current prudential supervision provisions, the process is formalised and regulated by a specific internal ICAAP regulation intended to define assessment methodologies, regulations and operational limits for large risk management as well as the procedures for the description and communication of the evidence emerging from periodic account rendering and risk monitoring.

In brief, according to the provisions of the specific Pillar 2 Organisational Manual, ICAAP in Veneto Banca Holding is divided into thirteen phases which include, among others, the following macro activities:

1. Mapping large risks by management and measurement instruments or the identification of large risks to which the Bank is exposed on the basis of its own operations and in the supervised business areas;
2. Definition of the Group risk propensity or the maximum capital amount that the Group is willing to put at risk, identified in a ratio between total internal capital and total capital;
3. Monitoring risk indicators with consequent updating of periodical reporting on the trend of exposure to various large risks;
4. Three year plan or the drawing up of Group strategic lines for the medium term must be consistent with the definition of risk appetite (risk propensity) approved by the Board of Directors; the process must take into consideration the effects in terms of endowment capital, of strategies outlined and must lead to the formulation of a capital plan in line from the time horizon point of view as well;
5. Current total internal capital or the calculation of total internal capital obtained by summation (building block) of the internal capital absorbed by the various large risks.

6. Stress test, or the development of sensitivity analysis on hypotheses of variation of significant variables in order to assess the Group vulnerability to various risks of exceptional but plausible events;
7. Total capital, or the definition of the composition of endowment capital for coverage of large risks (first and second pillar) and its reconciliation with supervisory capital;
8. Capital adequacy, or the verification of the adequacy of the endowment capital (total capital) compared to the total internal capital absorbed by large risks assumed;
9. Prospective internal capital, or the measurement forecast for total internal capital and total capital with reference to the current fiscal year, consistent with expected evolutions in Bank operations defined in the strategic planning and budget;
10. Preparation and transmission of ICAAP annual report which is sent to Bank of Italy after approval by the Parent Company Board of Directors.

## QUANTITATIVE NOTICE

The following tables show the capital absorbed by credit and counterparty, market and operational risk and the values assumed by the capital ratios referring to the basic capital (Tier 1 ratio) and the total capital (Total capital ratio).

|  | Capital requirements |
|--|----------------------|
| <b>CREDIT AND COUNTERPARTY RISK</b>  |                      |
| <b>Standard Methodology</b>  |                      |
| Exposure to administrations and central banks                                    | 12,545               |
| Exposure to supervised intermediaries  | 88,667               |
| Exposure to territorial institutions   | 434                  |
| Exposure to not for profit bodies and public sector corporations                 | 12,950               |
| Exposure to multilateral development banks                                       |                      |
| Exposure to international organisations  |                      |
| Exposure to undertakings   | 714,355              |
| Exposure to retail   | 329,321              |
| Short term exposure to retail  |                      |
| Exposure to collective investment undertakings in transferable securities (UCIT) | 9,413                |
| Exposure to securitisation   | 36,430               |
| Exposure backed by real estate   | 304,955              |
| Exposure in the form of covered bonds  |                      |
| Past due exposure  | 187,714              |
| Exposure belonging to high risk categories for regulatory purposes               | 5,974                |
| Other exposure   | 83,384               |
| <b>TOTAL CREDIT AND COUNTERPARTY RISK</b>  | <b>1,786,141</b>     |
| <b>MARKET RISK</b>   |                      |
| <b>Standard Methodology</b>  |                      |
| General position risk  | 10,904               |
| Specific position risk   | 11,113               |
| Position risk in UCIT equity securities  | 1,729                |
| Options  | 460                  |
| Exchange risk  | 5,937                |
| Commodities position risk  | 63                   |
| <b>TOTAL MARKET RISK</b>   | <b>30,206</b>        |
| <b>OPERATIONAL RISK</b>  |                      |
| Basic method   | 141,851              |
| <b>TOTAL OPERATIONAL RISK</b>  | <b>141,851</b>       |
| <b>OTHER REQUIREMENTS</b>  |                      |
| <b>TOTAL CAPITAL REQUIREMENT</b>   | <b>1,958,198</b>     |

## EQUITY RATIOS

|  |               |
|--|---------------|
| <b>Basic capital ratio (Tier 1 Ratio)</b>                          | <b>8.70%</b>  |
| Basic capital (Tier 1 Ratio) / weighted risk assets (Tier 1 Ratio) |               |
| <b>Total Capital Ratio</b>   | <b>12.04%</b> |
| (Supervisory capital / weighted risk assets)                       |               |

Source: Processing starting from Base reporting 1 - Item 36526 Sub-item 02 -18 Type of amount 03 (weighted amount), Item 36562 Sub-item 02-50, Item 36580 Sub-item 02-34, Item 36584 Sub-item 00, Item 36586 Sub-item 02

## TABLE 5 - CREDIT RISK: GENERAL INFORMATION ON ALL BANKS

### QUALITATIVE NOTICE

The classification of deteriorated exposures in the various risk categories (non performing loans, problem loans, restructured exposure and past due exposure) is done in accordance with regulations issued by Bank of Italy.

Classification is done independently by operational structures or is subject to the opinions/provisions of the peripheral and central specialised functions assigned to credit control and recovery with the exception of lapsed credits and/or overdrafts beyond 180 days for which reporting takes place through automated procedures.

These deteriorated credits are subject to an analytical assessment process regardless of the amounts of past due and restructured positions while the problem loans above Euro 20,000.00 are assessed analytically. Problem loans below this threshold are subject to collective assessment.

Past due receivables exceeding 180 days are subject to analytical assessment if over Euro 1 million; otherwise they are assessed collectively.

The amount of the value adjustment for each credit is equal to the difference between its balance sheet value at the time of assessment (amortised cost) and the current value of forecasted future cash flows calculated by applying the actual original interest rate.

Cash flow forecasts take into account expected recovery times and the presumed realisation value of any guarantees which back the positions as well as expected credit recovery costs. Cash flows for credits which are expected to be recovered in the short term are not back discounted.

Specifically with regard to non performing loans in order to determine the calculation procedure of the recovery value, all the positions are subjected to analytical assessment with identification of a recovery forecast subject to realisation on the basis of the average recovery times estimated by the competent corporate functions.

Problem positions for amounts over Euro 20,000.00 are assessed analytically, identifying a recovery forecast subject to realisation determined on the basis of actual recovery estimated by the competent corporate functions.

Positions with exposures below the said limit and those for higher amounts for which no specific credit risk has been identified are subject to collective devaluation determined on the basis of the estimate of nominal future flows corrected for expected losses using default probability (PD) and loss given default (LGD) parameters.

Restructured credits are assessed analytically, identifying a recovery forecast subject to realisation determined on the basis of actual recovery times estimated by the competent corporate functions.

Past due receivables and/or overruns exceeding 180 days are subject to analytical assessment if over Euro 1 million; those lower than a million and credits past due between 90/180 days are devalued at a flat rate on the basis of an estimate of the nominal future flows corrected for expected losses using default probability (PD) and loss given default (LGD) parameters.

Credits for which no individual objective evidence of loss has been found, and that is, normally, performing loans including those towards counterparties resident in countries at risk are subject to assessment of a loss of collective value. This assessment is done for uniform credit categories with similar characteristics in terms of credit risk and the related loss percentages are estimated taking into account historical series which make it possible to estimate the value of the latent loss in each credit category.

The estimate of nominal expected future flows is based on default probability (PD) and loss given default (LGD) parameters and the flows thus calculated are realised on the basis of the actual rate of each relationship.

The actual original rate of each loan remains unchanged over time even if the ratio is restructured thus entailing variations in the contractual rate and even if the ratio becomes, in actual practice, non interest bearing in terms of the contract.

The write-down is entered in the profit and loss account.

The original value of the credits is restored in subsequent years in proportion to the disappearance of the causes determining the adjustment, provided that such assessment can be connected objectively to an event occurring after that adjustment. The write-back is entered into the profit and loss account and cannot, in any case, be greater than the amortised cost that the credit would have had without the previous adjustments. The write-backs also include the positive effects from the return of the realisation effect deriving from the progressive reduction in the estimated recovery time for devalued credits.

At each closing date of the balance sheet and of situations during the year, any additional write-downs or write-backs are recalculated differentially with reference to the entire performing loan portfolio on the same date.

## QUANTITATIVE NOTICE

The following tables show:

- the distribution of financial cash and off balance sheet assets by portfolio grouping, type of counterparty, credit quality, geographical area and economic sector;
- the distribution of assets by residual life bracket;
- the dynamics of deteriorated exposure and the related value adjustments.

The values shown are those presented in the notes to the balance sheet at 31 December 2009 and refer to the banking group.

It is deemed that the values of the end period are representative of the Group risk exposure during the period under reference.

### TOTAL GROSS CREDIT EXPOSURE BY TYPE OF EXPOSURE AND COUNTERPARTY

Distribution of financial assets by portfolio grouping and by credit quality (balance sheet values)

| Portfolios/Quality                         | Banking group        |                |                       |                   |                   | Other undertakings |                | Total<br>31/12/2010 |
|--|----------------------|----------------|-----------------------|-------------------|-------------------|--------------------|----------------|---------------------|
|  | Non performing loans | Problem loans  | Restructured exposure | Past due exposure | Country Risk      | Other assets       | Deteriorated   |                     |
| 1. Financial assets held for trading       |                      | 5,580          | 59                    | 3                 | 583,485           |                    |                | 589,127             |
| 2. Financial assets available for sale     |                      |                |                       |                   | 1,349,224         |                    |                | 1,349,224           |
| 3. Financial assets held up to maturity    |                      |                |                       |                   | 6,384             |                    |                | 6,384               |
| 4. Receivables from banks                  |                      |                |                       |                   | 1,390,596         |                    | 126            | 1,390,722           |
| 5. Receivables from clients                | 822,666              | 769,098        | 28,395                | 339,511           | 23,776,489        |                    |                | 25,736,159          |
| 6. Financial assets assessed at fair value |                      |                |                       |                   | 71,396            |                    |                | 71,396              |
| 7. Financial assets being divested         |                      |                |                       |                   |                   |                    | 222,762        | 222,762             |
| 8. Derivatives coverage                    |                      |                |                       |                   | 76,202            |                    |                | 76,202              |
| <b>Total 31/12/2010</b>                    | <b>822,666</b>       | <b>774,678</b> | <b>28,454</b>         | <b>339,514</b>    | <b>27,253,776</b> |                    | <b>222,888</b> | <b>29,441,976</b>   |
| <b>Total 31/12/2009</b>                    | <b>305,869</b>       | <b>567,919</b> | <b>63,049</b>         | <b>338,908</b>    | <b>18,684,990</b> |                    |                | <b>19,960,735</b>   |



## CASH AND OFF BALANCE SHEET CREDIT EXPOSURE TO BANKS: GROSS AND NET VALUES

| Types of exposure/Values |                                   | Gross exposure   | Specific write-downs | Portfolio write-downs | Net exposure     |
|--------------------------|-----------------------------------|------------------|----------------------|-----------------------|------------------|
| <b>A.</b>                | <b>Cash exposure</b>              |                  |                      |                       |                  |
| a.                       | Non performing loans              |                  |                      | X                     |                  |
| b.                       | Problem loans                     |                  |                      | X                     |                  |
| c.                       | Restructured exposure             |                  |                      | X                     |                  |
| d.                       | Past due exposure                 |                  |                      | X                     |                  |
| e.                       | Other assets                      | 2,068,388        | X                    |                       | 2,068,388        |
|                          | <b>Total A</b>                    | <b>2,068,388</b> |                      |                       | <b>2,068,388</b> |
| <b>B.</b>                | <b>Off balance sheet exposure</b> |                  |                      |                       |                  |
| a.                       | Deteriorated                      |                  |                      | X                     |                  |
| b.                       | Others                            | 614,148          | X                    |                       | 614,148          |
|                          | <b>Total B</b>                    | <b>614,148</b>   |                      |                       | <b>614,148</b>   |
|                          | <b>Total (A+B)</b>                | <b>2,682,536</b> |                      |                       | <b>2,682,536</b> |

## CASH AND OFF BALANCE SHEET CREDIT EXPOSURE TO CLIENTS: GROSS AND NET VALUES

| Types of exposure/Values |                                   | Gross exposure    | Specific write-downs | Portfolio write-downs | Net exposure      |
|--------------------------|-----------------------------------|-------------------|----------------------|-----------------------|-------------------|
| <b>A.</b>                | <b>Cash exposure</b>              |                   |                      |                       |                   |
| a.                       | Non performing loans              | 1,378,141         | 555,475              | X                     | 822,666           |
| b.                       | Problem loans                     | 865,161           | 96,063               | X                     | 769,098           |
| c.                       | Restructured exposure             | 29,185            | 790                  | X                     | 28,395            |
| d.                       | Past due exposure                 | 353,716           | 14,205               | X                     | 339,511           |
| e.                       | Other assets                      | 24,882,522        | X                    | 78,514                | 24,804,008        |
|                          | <b>Total A</b>                    | <b>27,508,725</b> | <b>666,533</b>       | <b>78,514</b>         | <b>26,763,678</b> |
| <b>B.</b>                | <b>Off balance sheet exposure</b> |                   |                      |                       |                   |
| a.                       | Deteriorated                      | 147,556           | 4,006                | X                     | 143,550           |
| b.                       | Others                            | 3,969,130         | X                    | 4,421                 | 3,964,709         |
|                          | <b>Total B</b>                    | <b>4,116,686</b>  | <b>4,006</b>         | <b>4,421</b>          | <b>4,108,259</b>  |
|                          | <b>Total (A+B)</b>                | <b>31,625,411</b> | <b>670,539</b>       | <b>82,935</b>         | <b>30,871,937</b> |

## CREDIT EXPOSURE DISTRIBUTION BY SIGNIFICANT GEOGRAPHIC AREA

### TERRITORIAL DISTRIBUTION BY CASH AND OFF BALANCE SHEET CREDIT EXPOSURE TO CLIENTS

| Exposure/<br>Geographic area |                                   | Italy             |                   | Other European countries |                   | America        |                   | Asia         |                   | Rest of the world |                   |
|------------------------------|-----------------------------------|-------------------|-------------------|--------------------------|-------------------|----------------|-------------------|--------------|-------------------|-------------------|-------------------|
|                              |                                   | Net exposure      | Total write-downs | Net exposure             | Total write-downs | Net exposure   | Total write-downs | Net exposure | Total write-downs | Net exposure      | Total write-downs |
| <b>A.</b>                    | <b>Cash exposure</b>              |                   |                   |                          |                   |                |                   |              |                   |                   |                   |
| A.1                          | Non performing loans              | 758,960           | 483,940           | 61,268                   | 32,119            | 313            | 39,172            |              |                   | 2,125             | 245               |
| A.2                          | Problem loans                     | 651,649           | 86,006            | 117,135                  | 10,048            |                |                   | 305          | 7                 | 9                 | 3                 |
| A.3                          | Restructured exposure             | 25,292            | 498               | 3,103                    | 292               |                |                   |              |                   |                   |                   |
| A.4                          | Past due exposure                 | 314,970           | 13,033            | 23,582                   | 835               | 29             |                   | 80           |                   | 845               | 337               |
| A.5                          | Other exposures                   | 23,102,861        | 70,559            | 1,552,232                | 7,370             | 128,514        | 31                | 2,110        | 13                | 42,339            | 535               |
|                              | <b>Total (A)</b>                  | <b>24,853,732</b> | <b>654,036</b>    | <b>1,757,320</b>         | <b>50,664</b>     | <b>128,856</b> | <b>39,203</b>     | <b>2,495</b> | <b>20</b>         | <b>45,318</b>     | <b>1,120</b>      |
| <b>B.</b>                    | <b>Off balance sheet exposure</b> |                   |                   |                          |                   |                |                   |              |                   |                   |                   |
| B.1                          | Non performing loans              | 7,263             |                   |                          |                   |                |                   |              |                   |                   |                   |
| B.2                          | Problem loans                     | 49,638            | 4,006             | 31,062                   |                   |                |                   |              |                   |                   |                   |
| B.3                          | Other deteriorated assets         | 55,587            |                   |                          |                   |                |                   |              |                   |                   |                   |
| B.4                          | Other exposure                    | 3,419,817         | 3,548             | 539,593                  | 873               | 4,621          |                   | 2            |                   | 676               |                   |
|                              | <b>Total (B)</b>                  | <b>3,532,305</b>  | <b>7,554</b>      | <b>570,655</b>           | <b>873</b>        | <b>4,621</b>   |                   | <b>2</b>     |                   | <b>676</b>        |                   |
|                              | <b>Total 31/12/2010 (A+B)</b>     | <b>28,386,037</b> | <b>661,590</b>    | <b>2,327,975</b>         | <b>51,537</b>     | <b>133,477</b> | <b>39,203</b>     | <b>2,497</b> | <b>20</b>         | <b>45,994</b>     | <b>1,120</b>      |
|                              | <b>Total 31/12/2009</b>           | <b>18,571,574</b> | <b>367,916</b>    | <b>2,116,738</b>         | <b>28,580</b>     | <b>199,670</b> | <b>38,785</b>     | <b>1,384</b> | <b>4</b>          | <b>194,329</b>    | <b>18</b>         |

### TERRITORIAL DISTRIBUTION BY CASH AND OFF BALANCE SHEET CREDIT EXPOSURE TO BANKS

| Exposure/<br>Geographic area |                                   | Italy            |                   | Other European countries |                   | America       |                   | Asia         |                   | Rest of the world |                   |
|------------------------------|-----------------------------------|------------------|-------------------|--------------------------|-------------------|---------------|-------------------|--------------|-------------------|-------------------|-------------------|
|                              |                                   | Net exposure     | Total write-downs | Net exposure             | Total write-downs | Net exposure  | Total write-downs | Net exposure | Total write-downs | Net exposure      | Total write-downs |
| <b>A.</b>                    | <b>Cash exposure</b>              |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.1                          | Non performing loans              |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.2                          | Problem loans                     |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.3                          | Restructured exposure             |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.4                          | Past due exposure                 |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| A.5                          | Other exposure                    | 1,555,373        |                   | 427,973                  |                   | 52,114        |                   | 548          |                   | 20,149            |                   |
|                              | <b>Total A</b>                    | <b>1,555,373</b> |                   | <b>427,973</b>           |                   | <b>52,114</b> |                   | <b>548</b>   |                   | <b>20,149</b>     |                   |
| <b>B.</b>                    | <b>Off balance sheet exposure</b> |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| B.1                          | Non performing loans              |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| B.2                          | Problem loans                     |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| B.3                          | Other deteriorated assets         |                  |                   |                          |                   |               |                   |              |                   |                   |                   |
| B.4                          | Other exposure                    | 146,234          |                   | 465,319                  |                   | 2,173         |                   | 1            |                   | 421               |                   |
|                              | <b>Total (B)</b>                  | <b>146,234</b>   |                   | <b>465,319</b>           |                   | <b>2,173</b>  |                   | <b>1</b>     |                   | <b>421</b>        |                   |
|                              | <b>Total 31/12/2010 (A+B)</b>     | <b>1,701,607</b> |                   | <b>893,292</b>           |                   | <b>54,287</b> |                   | <b>549</b>   |                   | <b>20,570</b>     |                   |
|                              | <b>Total 31/12/2009</b>           | <b>1,697,711</b> |                   | <b>229,604</b>           |                   | <b>2,729</b>  |                   | <b>434</b>   |                   | <b>23,226</b>     |                   |

## DISTRIBUTION OF CREDIT EXPOSURE BY ECONOMIC SECTOR

## SECTORAL DISTRIBUTION BY CASH AND OFF BALANCE SHEET CREDIT EXPOSURE TO CLIENTS

| Exposure/<br>Counterparties          | Governs        |                      |                       | Other public institutions |                      |                       | Finance companies |                      |                       |                |
|--------------------------------------|----------------|----------------------|-----------------------|---------------------------|----------------------|-----------------------|-------------------|----------------------|-----------------------|----------------|
|                                      | Net exposure   | Specific write-downs | Portfolio write-downs | Net exposure              | Specific write-downs | Portfolio write-downs | Net exposure      | Specific write-downs | Portfolio write-downs |                |
| <b>A. Cash exposure</b>              |                |                      |                       |                           |                      |                       |                   |                      |                       |                |
| A.1 Non performing loans             |                |                      | X                     |                           |                      | X                     | 6,630             | 51,825               | X                     |                |
| A.2 Problem loans                    |                |                      | X                     |                           |                      | X                     | 3,799             | 373                  | X                     |                |
| A.3 Restructured exposure            |                |                      | X                     |                           |                      | X                     |                   |                      | X                     |                |
| A.4 Past due exposure                |                |                      | X                     |                           |                      | X                     | 2,136             | 27                   | X                     |                |
| A.5 Other exposure                   | 842,852        | X                    |                       | 35,184                    | X                    |                       | 1,194,833         | X                    |                       | 18,081         |
| <b>Total A</b>                       | <b>842,852</b> |                      |                       | <b>35,184</b>             |                      |                       | <b>1,207,398</b>  | <b>52,225</b>        |                       | <b>18,081</b>  |
| <b>B. Off balance sheet exposure</b> |                |                      |                       |                           |                      |                       |                   |                      |                       |                |
| B.1 Non performing loans             |                |                      | X                     |                           |                      | X                     | 2                 |                      |                       | X              |
| B.2 Problem loans                    |                |                      | X                     |                           |                      | X                     | 9                 |                      |                       | X              |
| B.3 Other deteriorated assets        |                |                      | X                     |                           |                      | X                     | 5                 |                      |                       | X              |
| B.4 Other exposure                   | 15,306         | X                    |                       | 584                       | X                    |                       | 114,623           | X                    |                       | 10             |
| <b>Total B</b>                       | <b>15,306</b>  |                      |                       | <b>584</b>                |                      |                       | <b>114,639</b>    |                      |                       | <b>10</b>      |
| <b>Total 31/12/2010 (A+B)</b>        | <b>858,158</b> |                      |                       | <b>35,768</b>             |                      |                       | <b>1,322,037</b>  | <b>52,225</b>        |                       | <b>18,091</b>  |
| <b>Total 31/12/2009</b>              | <b>326,717</b> |                      |                       | <b>39,372</b>             | <b>(11)</b>          |                       | <b>999,758</b>    | <b>(39,406)</b>      |                       | <b>(2,464)</b> |

|  | Insurance companies |                      |                       | Non financial companies |                      |                       | Other persons    |                      |                       |
|--|---------------------|----------------------|-----------------------|-------------------------|----------------------|-----------------------|------------------|----------------------|-----------------------|
|  | Net exposure        | Specific write-downs | Portfolio write-downs | Net exposure            | Specific write-downs | Portfolio write-downs | Net exposure     | Specific write-downs | Portfolio write-downs |
|  |                     |                      | X                     | 648,766                 | 395,895              | X                     | 167,270          | 107,755              | X                     |
|  |                     |                      | X                     | 575,737                 | 78,168               | X                     | 189,562          | 17,522               | X                     |
|  |                     |                      | X                     | 26,218                  | 765                  | X                     | 2,177            | 25                   | X                     |
|  | 1                   |                      | X                     | 167,274                 | 6,338                | X                     | 170,095          | 7,840                | X                     |
|  | 44,331              | X                    | 1                     | 14,237,801              |                      | X                     | 38,977           | 8,473,055            | X                     |
|  | <b>44,332</b>       |                      | <b>1</b>              | <b>15,655,796</b>       | <b>481,166</b>       | <b>38,977</b>         | <b>9,002,159</b> | <b>133,142</b>       | <b>21,449</b>         |
|  |                     |                      | X                     | 7,207                   |                      | X                     | 54               |                      | X                     |
|  |                     |                      | X                     | 77,073                  | 4,006                | X                     | 3,618            |                      | X                     |
|  | 26                  |                      | X                     | 53,313                  |                      | X                     | 2,243            |                      | X                     |
|  | 2,518               | X                    |                       | 3,429,009               | X                    | 4,221                 | 402,669          | X                    | 190                   |
|  | <b>2,544</b>        |                      |                       | <b>3,566,602</b>        | <b>4,006</b>         | <b>4,221</b>          | <b>408,584</b>   |                      | <b>190</b>            |
|  | <b>46,876</b>       |                      | <b>1</b>              | <b>19,222,398</b>       | <b>485,172</b>       | <b>43,198</b>         | <b>9,410,743</b> | <b>133,142</b>       | <b>21,639</b>         |
|  | <b>31,636</b>       |                      | <b>(2)</b>            | <b>14,191,482</b>       | <b>(263,903)</b>     | <b>(65,975)</b>       | <b>5,494,728</b> | <b>(53,452)</b>      | <b>(10,090)</b>       |

## PORTFOLIO DISTRIBUTION BY REMAINING CONTRACTUAL LIFE

| Items/time ranges                                 | On demand        | From more than 1 to 7 days | From more than 7 to 15 days | From more than 15 days to 1 month | From more than 1 month to 3 months | From more than 3 months to 6 months | From more than 6 months to 1 year | From more than 1 year to 5 years | More than 5 years | Indefinite duration | Total             |
|---|------------------|----------------------------|-----------------------------|-----------------------------------|------------------------------------|-------------------------------------|-----------------------------------|----------------------------------|-------------------|---------------------|-------------------|
| <b>Liquid assets</b>                              | <b>5,326,344</b> | <b>328,871</b>             | <b>196,293</b>              | <b>1,883,362</b>                  | <b>1,093,899</b>                   | <b>1,070,156</b>                    | <b>1,921,732</b>                  | <b>7,875,623</b>                 | <b>8,942,894</b>  | <b>50,042</b>       | <b>28,689,216</b> |
| Government securities                             |                  | 10                         | 22,417                      | 42,345                            | 7,508                              | 12,667                              | 87,662                            | 385,494                          | 284,961           |                     | 843,064           |
| Other debt securities                             | 115              |                            | 1,497                       | 12,482                            | 45,815                             | 48,766                              | 116,004                           | 870,584                          | 628,362           |                     | 1,723,625         |
| Mut. inv. funds subscriptions                     | 116,892          |                            |                             |                                   |                                    |                                     |                                   |                                  | 65,990            | 18,593              | 201,475           |
| Loans   | 5,209,168        | 328,861                    | 172,379                     | 1,828,445                         | 1,040,576                          | 1,008,723                           | 1,718,066                         | 6,619,545                        | 7,963,581         | 31,449              | 25,920,793        |
| - Banks   | 445,022          | 249,620                    | 11,680                      | 98,298                            | 260,040                            | 49,220                              | 2,004                             | 2,387                            | 10,099            | 11,294              | 1,139,664         |
| - Clients   | 4,764,146        | 79,241                     | 160,699                     | 1,730,147                         | 780,536                            | 959,503                             | 1,716,062                         | 6,617,158                        | 7,953,482         | 20,155              | 24,781,129        |
| <b>Off balance sheet transactions</b>             | <b>634,750</b>   | <b>639,277</b>             | <b>603,440</b>              | <b>1,268,604</b>                  | <b>8,105,112</b>                   | <b>9,412,861</b>                    | <b>6,128,828</b>                  | <b>15,397,172</b>                | <b>34,027,405</b> |                     | <b>76,217,449</b> |
| Financial derivatives with exchange of capital    |                  | 589,018                    | 602,831                     | 855,129                           | 3,316,486                          | 2,033,862                           | 1,536,812                         | 627,931                          | 5,446             |                     | 9,567,515         |
| - Long positions                                  |                  | 289,322                    | 298,235                     | 421,319                           | 1,635,978                          | 1,015,319                           | 766,297                           | 279,991                          | 1,183             |                     | 4,707,644         |
| - Short positions                                 |                  | 299,696                    | 304,596                     | 433,810                           | 1,680,508                          | 1,018,543                           | 770,515                           | 347,940                          | 4,263             |                     | 4,859,871         |
| Financial derivatives without exchange of capital | 157,875          | 3,131                      | 549                         | 4,111                             | 4,781,144                          | 7,319,901                           | 4,512,074                         | 14,561,292                       | 33,871,314        |                     | 65,211,391        |
| - Long positions                                  | 70,278           | 1,676                      | 507                         | 2,032                             | 1,239,395                          | 1,763,606                           | 4,483,402                         | 3,749,437                        | 21,310,549        |                     | 32,620,882        |
| - Short positions                                 | 87,597           | 1,455                      | 42                          | 2,079                             | 3,541,749                          | 5,556,295                           | 28,672                            | 10,811,855                       | 12,560,765        |                     | 32,590,509        |
| Receivable deposits and loans                     |                  |                            |                             |                                   |                                    |                                     |                                   |                                  |                   |                     |                   |
| - Long positions                                  |                  |                            |                             |                                   |                                    |                                     |                                   |                                  |                   |                     |                   |
| - Short positions                                 |                  |                            |                             |                                   |                                    |                                     |                                   |                                  |                   |                     |                   |
| Irrevocable disbursement commitments              | 58,898           | 46,988                     |                             | 2,779                             | 813                                | 40,050                              | 5,760                             | 45,168                           | 22,787            |                     | 223,243           |
| - Long positions                                  | 5,988            | 638                        |                             | 2,779                             | 813                                | 20,050                              | 5,760                             | 33,923                           | 22,787            |                     | 92,738            |
| - Short positions                                 | 52,910           | 46,350                     |                             |                                   |                                    | 20,000                              |                                   | 11,245                           |                   |                     | 130,505           |
| Financial guarantees issued                       | 417,977          | 140                        | 60                          | 406,585                           | 6,669                              | 19,048                              | 74,182                            | 162,781                          | 127,858           |                     | 1,215,300         |

**DISTRIBUTION BY COUNTERPARTY SECTOR TYPE OF DETERIORATED CREDIT EXPOSURE, MATURITIES AND TOTAL WRITE-DOWNS**

**CASH CREDIT EXPOSURE TO CLIENTS: DYNAMICS OF GROSS DETERIORATED EXPOSURE SUBJECT TO COUNTRY RISK**

| Payment objects/Categories |   | Non performing loans | Problem loans  | Restructured exposure | Past due exposure |
|----------------------------|---|----------------------|----------------|-----------------------|-------------------|
| <b>A.</b>                  | <b>Initial gross exposure</b>                           | <b>583,914</b>       | <b>623,921</b> | <b>70,069</b>         | <b>343,486</b>    |
|                            | - of which: exposures transferred but not cancelled     | 28,356               | 35,928         | 2,647                 | 7                 |
| <b>B.</b>                  | <b>Increases</b>  | <b>888,800</b>       | <b>779,253</b> | <b>13,066</b>         | <b>451,663</b>    |
| B.1                        | Performing loan inflows                                 | 183,743              | 439,821        | 3,760                 | 306,668           |
| B.2                        | Transfer of deteriorated exposure from other categories | 216,874              | 87,365         | 1,825                 | 4,087             |
| B.3                        | Other increases   | 488,183              | 252,067        | 7,481                 | 140,908           |
| <b>C.</b>                  | <b>Decreases</b>  | <b>94,573</b>        | <b>538,013</b> | <b>53,950</b>         | <b>441,433</b>    |
| C.1                        | Outflows to performing loans                            | 212                  | 241,380        | 28,006                | 274,450           |
| C.2                        | Cancellations   | 43,541               | 18,285         |                       | 9,257             |
| C.3                        | Collection  | 44,316               | 87,757         | 256                   | 27,954            |
| C.4                        | Realisation by assignment                               |                      |                |                       |                   |
| C.5                        | Transfer of deteriorated exposure to other categories   | 119                  | 182,778        | 2,833                 | 120,337           |
| C.6                        | Other decreases   | 6,385                | 7,813          | 22,855                | 9,435             |
| <b>D.</b>                  | <b>Final gross exposure</b>                             | <b>1,378,141</b>     | <b>865,161</b> | <b>29,185</b>         | <b>353,716</b>    |
|                            | - of which: exposures transferred but not cancelled     | 54,802               | 38,269         | -                     | 18,199            |

**CASH CREDIT EXPOSURE TO CLIENTS: DYNAMICS OF TOTAL WRITE-DOWNS**

| Payment objects/Categories |   | Non performing loans | Problem loans | Restructured exposure | Past due exposure |
|----------------------------|---|----------------------|---------------|-----------------------|-------------------|
| <b>A.</b>                  | <b>Initial overall adjustments</b>                      | <b>278,045</b>       | <b>58,246</b> | <b>7,020</b>          | <b>8,309</b>      |
|                            | - of which: exposures transferred but not cancelled     |                      | 852           | 9                     | 65                |
| <b>B.</b>                  | <b>Increases</b>  | <b>362,805</b>       | <b>73,117</b> | <b>687</b>            | <b>9,098</b>      |
| B.1                        | Value adjustments                                       | 123,857              | 57,198        | 24                    | 7,669             |
| B.2                        | Transfer of deteriorated exposure from other categories | 96,319               | 302           | 51                    | 25                |
| B.3                        | Other increases   | 142,629              | 15,617        | 612                   | 1,404             |
| <b>C.</b>                  | <b>Decreases</b>  | <b>85,375</b>        | <b>35,300</b> | <b>6,917</b>          | <b>3,202</b>      |
| C.1                        | Write-backs by assessment                               | 36,193               | 3,628         | 6,870                 | 1,394             |
| C.2                        | Write-backs by collection                               | 7,483                | 1,708         |                       | 542               |
| C.3                        | Cancellations   | 38,810               | 134           |                       | 8                 |
| C.4                        | Transfer of deteriorated exposure to other categories   |                      | 27,892        | 47                    | 345               |
| C.5                        | Other decreases   | 2,889                | 1,938         | 0                     | 913               |
| <b>D.</b>                  | <b>Final overall adjustments</b>                        | <b>555,475</b>       | <b>96,063</b> | <b>790</b>            | <b>14,205</b>     |
|                            | - of which: exposures transferred but not cancelled     | 821                  | 758           |                       | 115               |

Deteriorated exposure to banks have not been recorded, and neither write-downs on the same, consequently.

## TABLE 6 - CREDIT RISK: INFORMATION ON PORTFOLIOS SUBJECT TO THE STANDARDISED METHOD AND ON SPECIALISED CREDIT EXPOSURE AND IN CAPITAL INSTRUMENTS IN THE AREA OF IRB METHODS

### QUALITATIVE NOTICE

The new prudential regulation for banks and banking groups regulated by Bank of Italy Circular no. 263 of 27 December 2006 "New prudential supervisory measures for banks" allows, among the substantial new measures regarding improved management practices and measurement techniques for risk management, for the possibility of using the standardised method.

This criterion covers:

- the breakdown of exposure into different classes (portfolios) according to the nature of the counterparty or the technical characteristics of the relationship or the procedures by which it is handled;
- the application of diversified weighting ratios to each portfolio, possibly also depending on the creditworthiness assessment issued by a third party recognised by Bank of Italy (External Credit Assessment Institution – ECAI) or by export credit agencies (Export Credit Agency – ECA) recognised by Bank of Italy or by a competent authority in another Community state.

It is specifically noted that:

- for the central administrations and central banks portfolio, the weighting depends on the rating ascribed by the ECAI to the individual states;
- for the supervised intermediaries it depends on the standing of the State where the supervised intermediary has registered offices;
- for the public sector corporations the weighting rules are the same as for supervised intermediaries.

In cases where the banks do not wish to avail themselves of the recognised rating agency assessments, a weighted factor of 100% is generally applied to credit exposure with some specific exceptions as allowed for in the above-mentioned legislation of reference.

For the purpose of calculating weighted risk positions for credit and counterparty risk - the standardised method - the Group chose to avail itself of the following credit assessment agencies (ECAI).

### Rischio di credito

| Portfolios   | ECA/ECAI          | Rating characteristics (*) |
|--|-------------------|----------------------------|
| Exposure to central administrations and central banks                            | Standard & Poor's | Solicited                  |
| Exposure to multilateral development banks                                       | Standard & Poor's | Solicited                  |
| Exposure to undertakings and other persons                                       | Standard & Poor's | Solicited                  |
| Exposure to collective investment undertakings in transferable securities (UCIT) |                   |                            |

(\*) Solicited rating: the rating issued on the basis of the request by the person and for a consideration.

### Securitisation

|   |                                       |
|---|---------------------------------------|
| Positions on securitisation with a short term rating                  | Standard & Poor's<br>Moody's<br>Fitch |
| Positions on securitisation other than those with a short term rating | Standard & Poor's<br>Moody's<br>Fitch |

## QUANTITATIVE NOTICE

The following table shows the distribution of exposure subject to credit and counterparty risk based on weighted factors in accordance with the rules for compilation of supervisory reports laid down by prudential legislation. The amounts therefore take into consideration the risk mitigation techniques adopted.

### CREDIT AND COUNTERPARTY RISK: DISTRIBUTION OF EXPOSURE AND REQUIREMENT BY REGULATORY CLASS OF ASSET

#### Standardised method

| Standard portfolio   | Weighting factor |                  |                  |                  |                  |                   |                |            | Altre ponderazioni | Totale            | Deduzioni dal patrimonio di vigilanza |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|----------------|------------|--------------------|-------------------|---------------------------------------|
|  | 0%               | 20%              | 35%              | 50%              | 75%              | 100%              | 150%           | 200%       |                    |                   |                                       |
| Central Administrations and Central Banks  | 1,375,173        |                  |                  |                  |                  | 156,811           |                |            |                    | 1,531,984         |                                       |
| Not for Profit Bodies and Public Sector Corporations                             |                  |                  |                  | 20,939           |                  | 151,399           |                |            |                    | 172,338           |                                       |
| Territorial Bodies   |                  | 3,630            |                  | 9,389            |                  |                   |                |            |                    | 13,019            |                                       |
| Multilateral Development Banks   | 2,525            |                  |                  |                  |                  |                   |                |            |                    | 2,525             |                                       |
| International Organisations  |                  |                  |                  |                  |                  |                   |                |            |                    |                   |                                       |
| Supervised intermediaries  | 2,505,692        | 1,368,131        |                  | 1,373,561        |                  | 1,766,114         |                |            | 44,401             | 7,057,899         |                                       |
| Undertakings and other persons   | 14,070           | 19,174           |                  | 241,985          |                  | 9,169,257         | 47,967         |            | 32,459             | 9,524,912         |                                       |
| Exposure to retail   |                  |                  |                  |                  | 5,722,946        |                   |                |            | 3,228              | 5,726,174         |                                       |
| Short term exposure to Undertakings  |                  |                  |                  |                  |                  |                   |                |            |                    |                   |                                       |
| Exposure backed by real estate   |                  |                  | 5,696,155        | 3,636,572        |                  |                   |                |            |                    | 9,332,727         |                                       |
| Exposure to collective investment undertakings in transferable securities (UCIT) |                  | 68,398           |                  |                  |                  | 103,988           |                |            |                    | 172,386           |                                       |
| Past due exposure  |                  |                  |                  | 11,391           |                  | 991,372           | 899,572        |            |                    | 1,902,335         |                                       |
| High Risk Exposure   |                  |                  |                  |                  |                  |                   | 48,792         | 741        |                    | 49,533            |                                       |
| Securitisation   |                  | 37,838           |                  | 14,433           |                  |                   |                |            | 364,143            | 416,414           |                                       |
| Other exposure   | 173,113          | 13,616           |                  |                  |                  | 1,636,296         |                |            | 14,850             | 1,837,875         |                                       |
| <b>Total</b>   | <b>4,070,573</b> | <b>1,510,787</b> | <b>5,696,155</b> | <b>5,308,270</b> | <b>5,722,946</b> | <b>13,975,237</b> | <b>996,331</b> | <b>741</b> | <b>459,081</b>     | <b>37,740,121</b> |                                       |

Source: Reporting Base 1- Item 36526 Sub item 02-30 - Type of amount 82 ((asset backed financial guarantees) - Type of amount 83 (credit equivalent) Field 01136 (weighting factor)



## TABLE 8 - RISK MITIGATION TECHNIQUES

### QUALITATIVE NOTICE

#### Compensation policies

The Group does not apply compensation processes of credit risk exposures with offsetting counter entries on or off the balance sheet in relation to the commercial portfolio. The Group instead adopts a policy of risk reduction of the counterparty with institutional counterparties and enters into compensation and collateralisation agreements for both derivatives and repurchase agreements.

#### Policies and processes in the Management of Asset backed Guarantees

The Veneto Banca Group has implemented the requirements laid down in the new Prudential Supervisory Measures for the purpose of recognising the effects of risk mitigation due to the presence of asset backed guarantees to protect credit.

For the Banks operating in Italy, the Group has adopted the Standardised approach using Credit Risk Mitigation and the unabridged method.

Credit disbursement with the acquisition of asset backed guarantees is subject to specific control measures, differentiated by type of guarantee and applied at the time of disbursement and monitoring. In general, two main types of asset backed guarantees can be identified, in terms of both credit volume and numerosness of clients and they are subject to different regulations - Mortgages and Pledges (Money and Securities).

In compliance with the main organisational requirements for risk mitigation, the following are guaranteed:

- the presence of a computer system to track the phases of the guarantee's life cycle (acquisition, assessment, monitoring, revaluation, enforcement);
- independence of client default risk (internal rating) through the presence of asset backed Guarantees.

Contractual compliance with eligibility requirements for certainty in law and opposability is guaranteed and certified by the Parent Group Management Division which also supervises the efficiency of the processes/activities for guarantee enforcement and recovery.

The eligibility calculation for asset backed guarantees is determined by the system which draws on the basic information on the guarantees recorded in the computer system.

Specifically for guarantees secured by pledge, this is determined by reporting systems which also provide the calculations for capital requirements while the internal system (integrator) does the same for mortgage guarantees.

In order to limit residual risk (termination or non-existence of the protection value) Veneto Banca Group banks operating in Italy require:

- in the case of mortgage guarantees, that the acquisition of the right be accompanied by adequate insurance policies taken out against the risk of damage to the object guaranteed and a report by reliable experts independent of the chain of credit assessment.
- in cases of pledges where the pledged goods are devalued, that the original value be reconstituted (ensuring continuity of the guarantee by documents amending/integrating the original guarantee, whereas in the case when the right is terminated, it is requested that repayment be channelled through the Bank (collection).

Veneto Banca Group has identified a set of technical forms (differentiated by loan purpose/client type) for which mortgage guarantees are allowed. In the computer system, a loan proposal on one of these forms triggers a request for detailed information on the characteristics of the property object of the guarantee (identification, assessment) which must be acquired before the loan is approved.

The amount of the guarantee is booked at real current value (expert report on the property, market value of the right). The value is subsequently monitored automatically.

During the decision-making phase, for the calculation of the deliberative charges, the system considers only the part of the credit line backed by the value of the goods net of the spread (represented by the volatility of the value of the security). The presence of asset backed guarantees does not change the client default risk but it does affect the procedures and the deliberative charges since credit granting with mitigated risk is subject to different kinds of autonomies.

In the specific case of retail client mortgages, credit granting is channelled through specific disbursement processes characterised by the standardisation of the assessment/investigation process wherein

assumption criteria are defined through the application of specific parameters valid for all the Banks operating in Italy.

The process has several phases:

- checks on formal consistency and on the amount with the guarantees proposed during the deliberative phase:
  - o for secured guarantees, the system automatically checks for congruity/compatibility of the securities in the guarantee file with the type of guarantee proposed in the resolution and also checks the amount against the updated market value of the securities;
  - o for mortgage guarantees, the system runs another check on the existence of the mandatory identifying requirements and the existence of the expert's assessment report;
- confirmation of the guarantee. The book entry makes the loan operational.
- clear guarantee from books.

As mentioned above, the system actively monitors the value of real guarantees based on market quotations which trigger credit risk assessment operations.

For **pledge transactions** this monitoring is done monthly for securities in the guarantee file and for money at the Bank.

For each type of pledge guarantee subject to market and exchange risk, the Veneto Banca Group allows a percentage of tolerance for fluctuations in the value of goods determined by the volatility of the value of the security ("% gap").

For real estate **mortgages** verification of their value and therefore revaluation is done annually and is based on average market values determined by the statistical methods used by sector specialists.

In all cases, if a significant drop in the value of the property is recorded or if market conditions are subject to significant variations, an estimate by an independent expert is done.

For exposures of amounts over Euro 3 million or 5% of the bank's supervisory capital, a property value assessment is done in any case by an independent expert at least every three years.

#### **Asset backed guarantees accepted by Veneto Banca Group Banks operating in Italy**

Veneto Banca Group banks operating in Italy accept various credit protection instruments which can be summarised in the following categories:

- mortgages on real estate property;
- cash pledges deposited with the Bank;
- pledges of Securities and Mutual Funds deposited with the Bank;
- cash pledges deposited with other Banks;
- pledges of Securities and Mutual Funds deposited with other Banks;
- mortgages on Movable Property;
- pledges on other securities (Insurance Policies);
- pledges on credits;
- pledges on goods;
- other forms of asset backed guarantees (Insurance, Guarantee Funds).

Up to the present the first three cases represent the majority of the guarantees assumed as protection against credit risks and ensure the application of the risk mitigation rules under the New Supervisory Measures.

## **QUANTITATIVE NOTICE**

The following table illustrates the value of the exposure covered by asset backed and personal guarantees net of prudential spreads and broken down by reporting portfolio as identified by current supervisory legislation.

It specifically lists only the guarantees which, after complying with a series of requirements established by supervisory measures, are accepted among the risk mitigation techniques in the standard method. Exposure is net of volatility adjustments required by prudential legislation. There are no guarantees represented by derivative credits. In calculating asset backed financial guarantees, deposits received for repos agreements take on prime significance.

**CREDIT AND COUNTERPARTY RISK: DISTRIBUTION OF EXPOSURE COVERED BY ASSET BACKED AND PERSONAL GUARANTEES FOR REGULATORY CLASSES OF ASSETS**

**Standardised method**

| <b>Portfolio<br/>(regulatory class of asset)</b>                                 | <b>Asset<br/>backed<br/>financial<br/>guarantees</b> | <b>Personal<br/>guarantees</b> | <b>Total</b>     |
|--|--|--------------------------------|------------------|
| Exposure to central administrations and central banks                            | 19,061   | 9,738                          | <b>28,799</b>    |
| Exposure to supervised intermediaries  | 1,685,680  | 550,223                        | <b>2,235,903</b> |
| Exposure to territorial bodies   |  | 7,754                          | <b>7,754</b>     |
| Exposure to not for profit bodies and public sector corporations                 | 169,875  | 113                            | <b>169,988</b>   |
| Exposure to multilateral development banks                                       | 5,113  |                                | <b>5,113</b>     |
| Exposure to international organisations  |  |                                |                  |
| Exposure to undertakings and other persons                                       | 1,425,043  |                                | <b>1,425,043</b> |
| Exposure to retail   | 964,535  |                                | <b>964,535</b>   |
| Short term exposure to retail  |  |                                |                  |
| Exposure to collective investment undertakings in transferable securities (UCIT) | 2,398  |                                | <b>2,398</b>     |
| Exposure to securitisation   |  |                                |                  |
| Exposure backed by real estate   | 8,206  |                                | <b>8,206</b>     |
| Exposure in the form of covered bonds  |  |                                |                  |
| Past due exposure  | 26,657   |                                | <b>26,657</b>    |
| Exposure belonging to high risk categories for regulatory purposes               |  |                                |                  |
| Other exposure   | 174,938  |                                | <b>174,938</b>   |
| <b>Total</b>   | <b>4,481,506</b>                                     | <b>567,828</b>                 | <b>5,049,334</b> |

Source: Reporting Base 1- Item 36528 - Sub item 02-18 - Type of amount 85 (asset backed financial guarantees), 86 (personal guarantees), Field 1130 (SA Portfolio)

## TABLE 9 - COUNTERPARTY RISK:

### QUALITATIVE NOTICE

The Group is attentive to counterparty risk monitoring considered as the possibility that the counterparty of a transaction with certain financial instruments as its object could default before settlement.

This is a particular kind of credit risk, which generates a loss if the transactions executed with a certain counterparty have a positive value at the moment of the insolvency. Unlike the credit risk generated by a loan, where the probability of loss is unilateral because only the lending bank is exposed, counterparty risk usually creates a risk of loss of a bilateral kind.

The Group follows the same lines as the regulatory measures in basing its own collection procedures on the "current value" methodology. This methodology, briefly, consists of determining current and potential exposure through standard regulatory procedures using market value as the current exposure of the instrument and the regulatory add-on as, putting it simply, potential future exposure.

From an operational point of view the Group has defined a system for monitoring the same which entails, in relation to receivable interbank deposits and reverse repurchase agreements, the definition of operating ceilings for single counterparties, determined by the Central Credit Unit on the proposal of the Group Finance Department, and, with regard to positions in OTC derivatives traded with corporate customers, the application of add-ons needed for the rating of the single counterparty.

As far as this last case is concerned examination of the loan application and analysis at the same time of the solvency of the customer has the aim of assessing the amount lendable to be allocated to the credit facility assigned to the said customer.

Whenever the customer decides to acquire an "over the counter" (OTC) interest rate or exchange rate derivative, the Risk Management Unit of the Parent Company communicates to the Central Credit Unit of the Parent Company the add-on which the customer may encounter. Immediately the customer's credit facility is "absorbed" by this amount that acts as a buffer with the objective of reducing, with an acceptable confidence, the daily mark-to-market fluctuations (fair value of the instrument) of the derivative itself.

The potential amount of loss is calculated as 4 times the ten-day VaR (Value at Risk) at 99% of confidence on the historical scenario. It is expected, consequently, that the credit facility will cover 99% of the potential losses over a period of time of approximately 6 months.

At the same time the Risk Management Unit of the Parent Company calculates the mark to market of the derivative every day and checks that for the entire duration of the same there are no overruns with respect to the potential loss envisaged. If this happens (it is possible because the derivative often has a residual life of more than 6 months, the volatility and other risk factors may change significantly, etc...) the Risk Management Unit informs the Centrale Credit Department immediately and, after assessing the customer's solvency margins, this Department together with the Commercial Department, decides on the actions to be taken.

The counterparty risk on positions in OTC derivatives, traded by the Bank with eligible institutional counterparties, is monitored by the Central Credit Department (as happens for corporate customers), considering the intrinsic value of the position, if positive, and assigning an add-on to the institutional counterparty on the basis of its credit rating and the maturity of the transaction itself. The table of add-ons is prepared and reviewed by the Risk Management Unit and communicated, by the same, to the Central Finance Department of the Parent Company.

## QUANTITATIVE NOTICE

## FINANCIAL DERIVATIVES: POSITIVE GROSS FAIR VALUE – BREAKDOWN BY PRODUCT

| Portfolios/Type of derivatives |  | Positive Fair value |                        |                  |                        |
|--------------------------------|--|---------------------|------------------------|------------------|------------------------|
|                                |  | Total 31/12/2010    |                        | Total 31/12/2009 |                        |
|                                |  | Over the counter    | Central counterparties | Over the counter | Central counterparties |
| <b>A.</b>                      | <b>Supervisory trading portfolio</b>         | <b>280,720</b>      | <b>25,948</b>          | <b>267,566</b>   |                        |
| a)                             | Options                                      | 196,733             | 25,854                 | 177,554          |                        |
| b)                             | Interest rate swap                           | 61,812              |                        | 80,258           |                        |
| c)                             | Cross currency swap                          | 2,831               |                        | 2,492            |                        |
| d)                             | Equity swap                                  |                     |                        |                  |                        |
| e)                             | Forward                                      | 18,126              | 83                     | 4,939            |                        |
| f)                             | Futures                                      |                     | 11                     |                  |                        |
| g)                             | Other  | 1,218               |                        | 2,323            |                        |
| <b>B.</b>                      | <b>Hedging banking portfolio</b>             | <b>89,007</b>       |                        | <b>31,828</b>    |                        |
| A)                             | Options                                      | 66                  |                        |                  |                        |
| b)                             | Interest rate swap                           | 88,941              |                        | 31,828           |                        |
| c)                             | Cross currency swap                          |                     |                        |                  |                        |
| d)                             | Equity swap                                  |                     |                        |                  |                        |
| e)                             | Forward                                      |                     |                        |                  |                        |
| f)                             | Futures                                      |                     |                        |                  |                        |
| g)                             | Other  |                     |                        |                  |                        |
| <b>C.</b>                      | <b>Banking portfolio – other derivatives</b> | <b>3,858</b>        |                        | <b>3,121</b>     |                        |
| a)                             | Options                                      | 3                   |                        | 31               |                        |
| b)                             | Interest rate swap                           | 3,855               |                        | 3,090            |                        |
| c)                             | Cross currency swap                          |                     |                        |                  |                        |
| d)                             | Equity swap                                  |                     |                        |                  |                        |
| e)                             | Forward                                      |                     |                        |                  |                        |
| f)                             | Futures                                      |                     |                        |                  |                        |
| g)                             | Other  |                     |                        |                  |                        |
|                                | <b>Total</b>                                 | <b>373,585</b>      | <b>25,948</b>          | <b>302,515</b>   |                        |

## OVER THE COUNTER FINANCIAL DERIVATIVES –TRADING PORTFOLIO FOR SUPERVISORY PURPOSES AND BANKING PORTFOLIO: NOTIONAL VALUES, GROSS POSITIVE AND NEGATIVE FAIR VALUE BY COUNTERPARTIES – CONTRACTS NOT PART OF OFFSETTING AGREEMENTS

| Contracts not part of setino agreements |  | Government s and central banks | Other public institutions | Banks     | Financial companies | Insurance companies | Non financial companies | Other subjects |
|---|--|--------------------------------|---------------------------|-----------|---------------------|---------------------|-------------------------|----------------|
| <b>1.</b>                               | <b>Debt securities and interest rates</b>  |                                |                           |           |                     |                     |                         |                |
|   | - notional value                           |                                |                           | 2,678,236 | 225,995             |                     | 1,229,677               | 90,958         |
|   | - positive fair value                      |                                |                           | 24,865    | 4,245               |                     | 35,994                  | 102            |
|   | - negative fair value                      |                                |                           | 62,153    | 6,409               |                     | 5,690                   | 274            |
|   | - future exposure                          |                                |                           | 11,058    | 1,525               |                     | 6,216                   | 1              |
| <b>2.</b>                               | <b>Equity securities and stock indexes</b> |                                |                           |           |                     |                     |                         |                |
|   | - notional value                           |                                |                           | 39,201    | 39,279              | 67,366              | 1,079,107               | 163,358        |
|   | - positive fair value                      |                                |                           | 6         | 1,215               |                     | 29,477                  | 6              |
|   | - negative fair value                      |                                |                           | 2,115     | 1,057               | 12,500              | 58,540                  | 635            |
|   | - future exposure                          |                                |                           | 840       | 426                 |                     | 41,711                  | 11             |
| <b>3.</b>                               | <b>Foreign currencies and gold</b>         |                                |                           |           |                     |                     |                         |                |
|   | - notional value                           |                                |                           | 5,739,861 | 664,299             | 14,400              | 536,269                 | 232,730        |
|   | - positive fair value                      |                                |                           | 43,897    | 13,140              |                     | 8,324                   | 8,221          |
|   | - negative fair value                      |                                |                           | 81,736    | 9,216               | 147                 | 6,645                   | 1,938          |
|   | - future exposure                          |                                |                           | 29,050    | 4,411               | 144                 | 4,888                   | 2,315          |
| <b>4.</b>                               | <b>Other values</b>                        |                                |                           |           |                     |                     |                         |                |
|   | - notional value                           |                                |                           | 5,357     |                     |                     |                         | 180            |
|   | - positive fair value                      |                                |                           | 312       |                     |                     |                         | 51             |
|   | - negative fair value                      |                                |                           | 367       |                     |                     |                         |                |
|   | - future exposure                          |                                |                           | 18        |                     |                     |                         | 2              |

**OVER THE COUNTER CREDIT DERIVATIVES: POSITIVE GROSS FAIR VALUE – BREAKDOWN BY PRODUCT**

| Portfolio/Type of derivatives |                                      | Positive fair value |                     |
|-------------------------------|--------------------------------------|---------------------|---------------------|
|                               |                                      | Total<br>31/12/2010 | Total<br>31/12/2009 |
| <b>A.</b>                     | <b>Supervisory trading portfolio</b> | <b>813</b>          | <b>371</b>          |
| A)                            | Credit default products              | 813                 | 371                 |
| B)                            | Credit spread products               |                     |                     |
| c)                            | Total rate of return swap            |                     |                     |
| D)                            | Other                                |                     |                     |
| <b>B.</b>                     | <b>Banking portfolio</b>             |                     |                     |
| A)                            | Credit default products              |                     |                     |
| B)                            | Credit spread products               |                     |                     |
| c)                            | Total rate of return swap            |                     |                     |
| D)                            | Other                                |                     |                     |
|                               | <b>Total</b>                         | <b>813</b>          | <b>371</b>          |

**DERIVATI CREDITIZI OTC: FAIR VALUE LORDI (POSITIVI E NEGATIVI) PER CONTROPARTI – CONTRATTI NON RIENTRANTI IN ACCORDI DI COMPENSAZIONE**

| Contracts not part of settino agreements | Government s and central banks | Other public institutions | Banks  | Financial companies | Insurance companies | Non financial companies | Other subjects |
|--|--------------------------------|---------------------------|--------|---------------------|---------------------|-------------------------|----------------|
| <b>Regulatory trading capital</b>        |                                |                           |        |                     |                     |                         |                |
| <b>1. Hedging purchased</b>              |                                |                           |        |                     |                     |                         |                |
| - notional value                         |                                |                           | 51,500 | 7,700               |                     | 2,245                   |                |
| - positive fair value                    |                                |                           | 209    |                     |                     | 492                     |                |
| - negative fair value                    |                                |                           | 780    | 38                  |                     |                         |                |
| - future exposure                        |                                |                           | 4,400  | 770                 |                     | 225                     |                |
| <b>2. Hedging sold</b>                   |                                |                           |        |                     |                     |                         |                |
| - notional value                         |                                |                           | 30,245 | 1,000               |                     |                         |                |
| - positive fair value                    |                                |                           |        | 73                  |                     |                         |                |
| - negative fair value                    |                                |                           | 708    |                     |                     |                         |                |
| - future exposure                        |                                |                           | 2,025  | 100                 |                     |                         |                |
| <b>Banking book</b>                      |                                |                           |        |                     |                     |                         |                |
| <b>1. Hedging bought</b>                 |                                |                           |        |                     |                     |                         |                |
| - notional value                         |                                |                           |        |                     |                     |                         |                |
| - positive fair value                    |                                |                           |        |                     |                     |                         |                |
| - negative fair value                    |                                |                           |        |                     |                     |                         |                |
| <b>2. Hedging sold</b>                   |                                |                           |        |                     |                     |                         |                |
| - notional value                         |                                |                           |        |                     |                     |                         |                |
| - positive fair value                    |                                |                           |        |                     |                     |                         |                |
| - negative fair value                    |                                |                           |        |                     |                     |                         |                |

**DERIVATIVE CREDIT AGREEMENTS: NOTIONAL VALUES AT THE END OF THE YEAR AND AVERAGE VALUES FOR THE YEAR**

| Transactional categories |                               | Supervisory trading portfolio |                              | Banking portfolio   |                              |
|--------------------------|-------------------------------|-------------------------------|------------------------------|---------------------|------------------------------|
|                          |                               | on a single subject           | on several subjects (basket) | on a single subject | on several subjects (basket) |
| <b>1.</b>                | <b>Protective acquisition</b> |                               |                              |                     |                              |
| a)                       | Credit default products       | 73,945                        | 7,500                        |                     |                              |
| b)                       | Credit spread products        |                               |                              |                     |                              |
| c)                       | Total rate of return swap     |                               |                              |                     |                              |
| d)                       | Other                         |                               |                              |                     |                              |
|                          | <b>Total 31/12/2010</b>       | <b>73,945</b>                 | <b>7,500</b>                 |                     |                              |
|                          | <b>Average values</b>         | <b>4,331</b>                  |                              |                     |                              |
|                          | <b>Total 31/12/2008</b>       | <b>72,000</b>                 |                              |                     |                              |
| <b>2.</b>                | <b>Protective sales</b>       |                               |                              |                     |                              |
| a)                       | Credit default products       | 26,245                        | 5,000                        |                     |                              |
| b)                       | Credit spread products        |                               |                              |                     |                              |
| c)                       | Total rate of return swap     |                               |                              |                     |                              |
| d)                       | Other                         |                               |                              |                     |                              |
|                          | <b>Total 31/12/2010</b>       | <b>26,245</b>                 | <b>5,000</b>                 |                     |                              |
|                          | <b>Average values</b>         | <b>4,331</b>                  |                              |                     |                              |
|                          | <b>Totale 31/12/2009</b>      |                               |                              |                     |                              |

### COUNTERPARTY RISK: EAD AND VALUE OF ASSET BACKED GUARANTEES ALLOWED FOR RISK MITIGATION

| Derivatives             |  | EAD VALUE        | VALUE ASSET BACKED GUARANTEES |
|-------------------------|--|------------------|-------------------------------|
| 1.1                     | Derivative agreements                                | 456,911          |                               |
| 1.2                     | PCT  | 3,455,879        | 3,259,944                     |
| 1.3                     | Other SFT transactions and with settlement at l/term | 40,289           |                               |
| <b>Total 31/12/2010</b> |  | <b>3,953,079</b> | <b>3,259,944</b>              |

Source: Base Reporting 1 – Item 36526 – Sub item 54-56 – Type of amount 89 (with the exception of the value brought forward for PCT), e Base Reporting 1 – Item 36528 – Sub item 18 – Type of amount 85 (asset backed financial guarantee)

### FINANCIAL DERIVATIVES – SUPERVISORY TRADING PORTFOLIO: NOTIONAL VALUES AT THE END OF THE YEAR AND AVERAGE VALUES FOR THE YEAR

| Underlying assets/Type of derivative |  | Total 31/12/2010  |                        | Total 31/12/2009 |                        |
|--------------------------------------|--|-------------------|------------------------|------------------|------------------------|
|                                      |  | Over the counter  | Central Counterparties | Over the counter | Central Counterparties |
| <b>1.</b>                            | <b>Debt securities and interest rates</b>  | <b>4,625,286</b>  | <b>4,538</b>           | <b>7,453,844</b> |                        |
| A)                                   | Options                                    | 618,490           |                        | 478,638          |                        |
| B)                                   | Swap                                       | 4,006,796         |                        | 6,914,406        |                        |
| C)                                   | Forward                                    |                   | 1,401                  | 60,800           |                        |
| D)                                   | Futures                                    |                   | 3,137                  |                  |                        |
| E)                                   | Other                                      |                   |                        |                  |                        |
| <b>2.</b>                            | <b>Equity securities and stock indexes</b> | <b>2,414,808</b>  | <b>114,285</b>         | <b>1,208,047</b> |                        |
| A)                                   | Options                                    | 2,399,091         | 109,037                | 1,208,047        |                        |
| B)                                   | Swap                                       |                   |                        |                  |                        |
| C)                                   | Forward                                    | 8,240             | 5,248                  |                  |                        |
| D)                                   | Futures                                    |                   |                        |                  |                        |
| E)                                   | Other                                      | 7,477             |                        |                  |                        |
| <b>3.</b>                            | <b>Foreign currencies and gold</b>         | <b>11,161,133</b> |                        | <b>1,232,371</b> |                        |
| A)                                   | Options                                    | 9,545,021         |                        | 91,092           |                        |
| B)                                   | Swap                                       | 576,397           |                        | 532,850          |                        |
| C)                                   | Forward                                    | 1,039,715         |                        | 409,843          |                        |
| D)                                   | Futures                                    |                   |                        |                  |                        |
| E)                                   | Other                                      |                   |                        | 198,586          |                        |
| <b>4.</b>                            | <b>Goods</b>                               | <b>7,034</b>      |                        |                  |                        |
| <b>5.</b>                            | <b>Other underlying assets</b>             |                   |                        |                  |                        |
| <b>Total</b>                         |  | <b>18,208,261</b> | <b>118,823</b>         | <b>9,894,262</b> |                        |
| <b>Average values</b>                |  | <b>6,659,332</b>  |                        | <b>7,754,283</b> |                        |

**FINANCIAL DERIVATIVES – BANKING PORTFOLIO: NOTIONAL VALUES AT THE END OF THE YEAR AND AVERAGE VALUES FOR THE YEAR**

**Hedging derivatives**

| Underlying assets/type of derivatives |  | Total 31/12/2010 |                        | Total 31/12/2009 |                        |
|---------------------------------------|--|------------------|------------------------|------------------|------------------------|
|                                       |  | Over the counter | Central Counterparties | Over the counter | Central Counterparties |
| <b>1.</b>                             | <b>Debt securities and interest rates</b>  | <b>5,180,157</b> |                        | <b>432,315</b>   |                        |
| A)                                    | Options                                    | 41,459           |                        |                  |                        |
| B)                                    | Swap                                       | 5,138,698        |                        | 432,315          |                        |
| C)                                    | Forward                                    |                  |                        |                  |                        |
| D)                                    | Futures                                    |                  |                        |                  |                        |
| E)                                    | Other                                      |                  |                        |                  |                        |
| <b>2.</b>                             | <b>Equity securities and stock indexes</b> |                  |                        |                  |                        |
| A)                                    | Options                                    |                  |                        |                  |                        |
| B)                                    | Swap                                       |                  |                        |                  |                        |
| C)                                    | Forward                                    |                  |                        |                  |                        |
| D)                                    | Futures                                    |                  |                        |                  |                        |
| E)                                    | Other                                      |                  |                        |                  |                        |
| <b>3.</b>                             | <b>Foreign currencies and gold</b>         |                  |                        |                  |                        |
| A)                                    | Options                                    |                  |                        |                  |                        |
| B)                                    | Swap                                       |                  |                        |                  |                        |
| C)                                    | Forward                                    |                  |                        |                  |                        |
| D)                                    | Futures                                    |                  |                        |                  |                        |
| E)                                    | Other                                      |                  |                        |                  |                        |
| <b>4.</b>                             | <b>Goods</b>                               |                  |                        |                  |                        |
| <b>5.</b>                             | <b>Other underlying assets</b>             |                  |                        |                  |                        |
|                                       | <b>Total</b>                               | <b>5,180,157</b> |                        | <b>432,315</b>   |                        |
|                                       | <b>Average values</b>                      | <b>3,755,729</b> |                        | <b>3,315,003</b> |                        |

**Other derivatives**

| Underlying assets/type of derivatives |  | Total 31/12/2010 |                        | Total 31/12/2009 |                        |
|---------------------------------------|--|------------------|------------------------|------------------|------------------------|
|                                       |  | Over the counter | Central Counterparties | Over the counter | Central Counterparties |
| <b>1.</b>                             | <b>Debt securities and interest rates</b>  | <b>765,026</b>   |                        | <b>585,882</b>   |                        |
| A)                                    | Options                                    | 80,000           |                        | 126,907          |                        |
| B)                                    | Swap                                       | 685,026          |                        | 458,975          |                        |
| C)                                    | Forward                                    |                  |                        |                  |                        |
| D)                                    | Futures                                    |                  |                        |                  |                        |
| E)                                    | Other                                      |                  |                        |                  |                        |
| <b>2.</b>                             | <b>Equity securities and stock indexes</b> | <b>19,178</b>    | <b>10</b>              | <b>46,534</b>    |                        |
| A)                                    | Options                                    | 19,178           |                        | 46,534           |                        |
| B)                                    | Swap                                       |                  |                        |                  |                        |
| C)                                    | Forward                                    |                  | 10                     |                  |                        |
| D)                                    | Futures                                    |                  |                        |                  |                        |
| E)                                    | Other                                      |                  |                        |                  |                        |
| <b>3.</b>                             | <b>Foreign currencies and gold</b>         |                  |                        |                  |                        |
| A)                                    | Options                                    |                  |                        |                  |                        |
| B)                                    | Swap                                       |                  |                        |                  |                        |
| C)                                    | Forward                                    |                  |                        |                  |                        |
| D)                                    | Futures                                    |                  |                        |                  |                        |
| E)                                    | Other                                      |                  |                        |                  |                        |
| <b>4.</b>                             | <b>Goods</b>                               |                  |                        |                  |                        |
| <b>5.</b>                             | <b>Other underlying assets</b>             |                  |                        |                  |                        |
|                                       | <b>Total</b>                               | <b>784,204</b>   | <b>10</b>              | <b>632,416</b>   |                        |
|                                       | <b>Average values</b>                      | <b>109,406</b>   |                        |                  |                        |



## TABLE 10 - SECURITISATION TRANSACTIONS

### QUALITATIVE NOTICE

The securitisation transactions enacted in the period between 2002 and the year closing allowed the Group substantial diversification in funding sources. Since 2008 the drop in spreads paid to the market against underwriting securities issued contributed to consolidation and development of recourse to this type of funding.

Those carried out in 2010 instead enabled the issue of securities which, as they were subscribed by the Parent Company, were eligible at the Central Bank and were therefore used as a source of refinancing.

The securitised assets were represented by performing loans (in general, mortgages) and, in one case, by a salary backed loan. The transactions were set up as traditional non-recourse transfers, pursuant to Law 130/1999. In 2009 the Group also completed a securitisation of non-performing loan positions with at least one mortgage-backed credit facility, and a securitisation of financial leasing contracts.

The risks connected to these transaction are mostly of a credit nature.

Periodically, and in coincidence with each quarterly account rendering for transactions concluded in 2002, 2005 and 2007 and every six months for 2006, 2008 and 2009, analysis was done to monitor the trend of this securitisation. These reports describe the performance during the related collection period of the portfolios transferred and supply the details of all flows relating to these operations.

Finally on the same date a synthesis of the historical evolution of the assets transferred was processed.

A specific quarterly report summarising the events of the collection period and including information from the investor reports is brought to the attention of the corporate bodies which are kept constantly informed on risks connected with such transactions.

Securitisation activities are recorded on the originator's balance sheet in accordance with two different procedures relating to different accounting regulations on the matter.

For the transaction that took place in 2002, "Intra Mortgage Finance 1", complete derecognition of the assets transferred was effected through the regulation which allows credit to be cancelled for transactions which took place before 1 January 2004. The risk to the Institute for such transactions related only to the cash reserve represented by subordinated loans granted to vehicle companies, the reimbursement of which was scheduled to take place only at the closure of the transaction.

Also for the 2009 securitisation regarding non-performing loans the assets transferred were completely derecognised, because the relevant underlying credit risks are not attributable to the Bank.

The Parent Company holds no Junior securities referring to the securitisation transaction 2009 non performing, while its portfolio does contain, in as much as deriving from the incorporation of Banca Popolare di Intra, held a Euro 13 million in Junior securities in its nominals portfolio issued when it carried out securitisation during the 2002 year.

All the other securitisations do not have the characteristics that would allow transferred assets to be cancelled from the balance sheet and therefore the credit risk is still included in the credit values not yet repaid.

Non-cancellation of securitised mortgages and their reclassification among the "loans to customers" occurred because of their full amount since the Group maintained all the risks and benefits whereas the exposure to variability and the timing of net financial flows of the transferred assets were not substantially modified. Specifically, given the technical aspects of the operation, the lack of derecognition was mainly due to the granting of a subordinate credit line, to the excess spread mechanism and to the drawing up of swap contracts.

The presence of subordinate loans made to the vehicle company and the underwriting of senior and junior securities (if executed) do not therefore appear in the balance sheet drawn up in accordance with IAS/IFRS principles which considers the company as the originator of the transaction and the vehicle company as a sole accounting entity

Right from the beginning of securitisation, each SPV was immunised against the rate risk with apposite swap contracts made with counterparties with the appropriate rating.

The notional amount of these swaps is connected to the residual debt of the performing mortgage loans in the portfolios of the different companies. Such derivatives are automatically redeemed at operational closure.

The financial results of the various securitisations are shown below the line in the budget statement drawn up by the SPVs.

The servicing commissions relating to the 2002 "Intra Mortgage Finance 1" transaction, and to the 2002 and 2003 transactions concluded during the year, appear in the profit and loss account.

As the Bank had not written off the profit and loss generating items, the income effect of the securitisation transactions, except relating the one completed in 2002 has been transferred to the original balance sheet items.

The paragraph below shows information on securitisation transactions of the Veneto Banca Group.

#### Securitisation December 2002

In December 2002 Banca Popolare di Intra, now merged in Veneto Banca, concluded (effective 1 November 2002) a securitisation transaction relating to 5,784 performing landed property loans and non mortgage loans granted by it to its own clients for residual capital debt at the time of transfer equal to Euro 445,085 million of which Euro 326.8 million to private parties and Euro 118.8 million to undertakings.

The transfer was made pursuant to Law 130 of 30 April 1999 to the vehicle company, Intra Mortgage Finance 1 srl, which is 95% owned by the Stichting Lago Maggiore Foundation, a company established under Dutch law, and 5% by the Consulting spa of Sondrio (in which Veneto Banca holds a 15% interest).

For the purchase of these loans in December 2002 the vehicle company, Intra Mortgage Finance 1 srl, issued securities divided into four tranches for a total amount of Euro 458 million.

| Class | Rating                      | Amount<br>(in Euro) |
|-------|-----------------------------|---------------------|
| A     | Aaa (Moody's)<br>AAA (S&P)  | 413,500,000         |
| B     | A2 (Moody's)<br>A+ (S&P)    | 17,500,000          |
| C     | Baa2 (Moody's)<br>BBB (S&P) | 14,000,000          |
| D     | unrated                     | 13,000,000          |

The three *tranches* of rated securities are denominated in Euro and have quarterly coupons at variable rates and a sequential repayment plan correlated to the collections of the underlying credit portfolio.

Class A, B and C securities are listed on the Luxembourg Stock Exchange.

Class D bonds denominated in Euro do not have an official rating and their yield in addition to their face value is redetermined residually and paid only in proportion to the amount by which the transferred portfolio collections exceed the amount of expenses and payouts correlated to bonds in a higher class. At 31 December 2010 Class D securities were in the portfolio of Veneto Banca among the "assets available for sale".

The transaction was completed by a "basis swap" contract between the vehicle company and the Credit Suisse First Boston International London in order to cover the rate risk deriving from different indexing and periodicity between the interests on securitised loans and interest paid on bonds issued.

The contract provided that the counterparties settle the spread of the interest rates as shown above on a quarterly basis and calculated on the nominal amount of residual capital of the loans at the date of each period of reference, adjusted on the basis of a performance ratio (determined by the ratio between interest quotas collected and the quotas of installment interest which are expected to be collected in the quarterly period of reference.)

A similar contract with the opposite value sign was entered into by C.S.F.B. and the Banca Popolare di Intra and is currently in force with Veneto Banca, following to the merger by incorporation of Banca Popolare di Intra.

#### Securitisation August 2003

During the 2003 year, BancaApulia spa concluded the securitisation transaction of a portfolio of residential and commercial mortgages classified as performing for a total amount equal to Euro 170 million, which were transferred at a price which was equal to the value of the residual debt on the principal existing at the time of the transfer.

With the transfer of the portfolio, "Apulia Finance n. 2 srl", the vehicle company which acquired the portfolio issued asset backed securities for a total amount of 174,744 million, broken down as follows:

| Class | Rating (S&P)              | Amount<br>(in Euro) |
|-------|---------------------------|---------------------|
| A     | AAA (Fitch)<br>AAA (S&P)  | 153,000,000         |
| B     | AAA (Fitch)<br>AAA (S&P)  | 6,790,000           |
| C     | BBB+ (Fitch)<br>BBB (S&P) | 9,840,000           |
| D     | unrated                   | 5,114,000           |

The three *tranches* of rated securities are denominated in Euro and have quarterly coupons at variable

rates and a sequential repayment plan, correlated to the collections of the underlying credit portfolio. Class A, B and C securities are listed on the Luxembourg Stock Exchange, were placed to institutional investors.

Class D bonds denominated in Euro do not have an official rating and their yield, calculated on an as-outstanding basis, is paid only in proportion to the amount by which the transferred portfolio collections exceed the amount of expenses and payouts correlated to bonds in a higher class.

The class D bonds were underwritten, from the start, by BancApulia, while it later bought the class B and C instruments.

#### Securitisation October 2004

During the 2004 year, BancaApulia spa carried out a securitisation transaction of a portfolio of credits classified as performing for a total amount equal to Euro 241 million, which were transferred at a price which was equal to the value of the residual debt on the outstanding principal as at the time of the transfer.

With the transfer of the portfolio "Apulia Mortgages Finance n. 3 srl", the vehicle company which acquired the portfolio issued asset backed securities for a total amount of 243,750 million, broken down as follows:

| Class | Rating (S&P)                               | Amount (in Euro) |
|-------|--|------------------|
| A     | AAA (Fitch)<br>Aaa (Moody's)<br>AAA (S&P)  | 211,400,000      |
| B     | AA (Fitch)<br>A1 (Moody's)<br>AAA (S&P)    | 11,000,000       |
| C     | BBB (Fitch)<br>Baa2 (Moody's)<br>BBB (S&P) | 12,700,000       |
| D     | unrated                                    | 8,650,000        |

The three *tranches* of rated securities are denominated in Euro and have quarterly coupons at variable rates and a sequential repayment plan, correlated to the collections of the underlying credit portfolio.

Class A, B and C securities are listed on the Luxembourg Stock Exchange, were placed to institutional investors.

Class D bonds denominated in Euro do not have an official rating and their yield, calculated on an as-outstanding basis, is paid only in proportion to the amount by which the transferred portfolio collections exceed the amount of expenses and payouts correlated to bonds in a higher class.

The class D bonds were underwritten, from the start, by BancApulia, while it later bought the class B and C instruments.

#### C Securitisation June 2005

During the 2005 year, Veneto Banca Holding in collaboration with its subsidiary, Banca di Bergamo, (then merged in Veneto Banca), concluded a securitisation transaction of a portfolio of performing mortgages and property loans for a total amount equal to Euro 383,184 million and Euro 92,830 million respectively.

With the transfer of the portfolio, Claris Finance 2005 srl, the vehicle company which acquired the portfolio issued asset backed securities for a total amount of Euro 476,014 million, broken down as follows:

| Class | Rating                     | Amount (in Euro) |
|-------|----------------------------|------------------|
| A     | Aaa (Moody's)<br>AAA (S&P) | 442,700,000      |
| B     | A1 (Moody's)<br>A (S&P)    | 23,800,000       |
| C1    | unrated                    | 7,659,262        |
| C2    | unrated                    | 1,854,268        |

The two tranches of rated securities are denominated in Euro and have quarterly coupons at variable rates and a sequential repayment plan correlated to the collections of the underlying credit portfolio.

Class A and B securities listed on the Luxembourg Stock Exchange were placed with institutional investors.

Class C1 and C2 bonds denominated in Euro do not have an official rating and their yield in addition to their face value determined residually is paid only in proportion to the amount by which transferred portfolio collections exceed the amount of expenses and payouts correlated to bonds in a higher class.

### Securitisation July 2006

During the 2006 year, Veneto Banca carried out securitisation on mortgage loans for a total of Euro 299.8 million which were transferred at a price equal to the value of the residual capital debt existing at the time of transfer (1 July 2006).

The transaction which obtained the Standard & Poor's rating on *tranching* was finalised upon the issue of four different securities:

| Class | Rating (S&P) | Amount (in Euro) |
|-------|--------------|------------------|
| A     | AAA          | 220,000,000      |
| B     | AAA          | 17,000,000       |
| C     | BBB+         | 60,000,000       |
| D     | unrated      | 2,850,000        |

Class A securities were directly underwritten by BEI while those in classes B, C and D were underwritten by Veneto Banca or Veneto Banca Group companies.

It was a revolving transaction that required Veneto Banca to replace the repaid capital with loans having the same characteristics every six months for the first four years of life of the transaction.

The rated securities have semi-annual coupons at variable rates and a repayment plan which, starting on the fourth year after issue, follows the residual debt of the outstanding loans.

As a guarantee of prompt payment and full reimbursement of senior and mezzanine securities, the SPV Claris Finance 2006 srl was also granted a subordinate loan of Euro 5.94 million.

### Securitisation in July 2006-April 2007

Between July 2006 and April 2007, Apulia Prontoprestito spa concluded a securitisation operation for performing loans, namely salary backed loans and payment delegations issued via the mandates.

This traditional-type operation allowed for taking advantage of a series of opportunities, including balancing loans and deposits, more favourable debt conditions, obtaining immediate liquidity for re-investment and diversification of funding sources.

The securitisation operation is structured as follows:

- a "warehousing period" involving 3 sales for a total of Euro 407 million;
- a "revolving period" during which the vehicle company bought new credit originating from "Apulia Prontoprestito" by the use of the sums resulting from the periodic collection of previously securitised loans;
- an "amortising period" in which, from January 2009 on, the securities issued will be repaid quarterly, according to the trend of credit collection.

The vehicle company Apulia Finance n. 5 Cessioni srl, founded pursuant to Law 130/99, financed the loan portfolio purchase by issuing securities with different degrees of preference as regards the payment of interests and capital.

The interest rate risk of the vehicle company, generated by mismatching between the fixed rate on loans and the variable rate on securities, is covered by a back-to-back swap; consequently, the hedge counterparty is an interface between the vehicle and the originator, while the risk management in question of the securitised portfolio in fact continues to be held by Apulia Prontoprestito.

### Securitized portfolio

The tables below show the phases of the securitisation operation:

| Type of operation    | Date            | N. of contracts | Amount (in thousands) |
|----------------------|-----------------|-----------------|-----------------------|
| 1 <sup>st</sup> sale | 25 July 2006    | 9,593           | 170,189               |
| 2 <sup>nd</sup> sale | 17 January 2007 | 8,493           | 147,795               |
| 3 <sup>rd</sup> sale | 17 April 2007   | 4,747           | 88,998                |
| <b>Total</b>         |                 | <b>22,833</b>   | <b>406,982</b>        |

| Type of operation         | Date            | N. of contracts | Amount (in thousands) |
|---------------------------|-----------------|-----------------|-----------------------|
| 1 <sup>st</sup> revolving | 17 October 2006 | 684             | 12,843                |
| 2 <sup>nd</sup> revolving | 17 January 2007 | 456             | 8,305                 |
| 3 <sup>rd</sup> revolving | 17 April 2007   | 818             | 15,331                |
| 4 <sup>th</sup> revolving | 17 July 2007    | 1,117           | 20,507                |
| 5 <sup>th</sup> revolving | 17 October 2007 | 1,262           | 23,168                |
| 6 <sup>th</sup> revolving | 17 January 2008 | 1,219           | 22,583                |
| 7 <sup>th</sup> revolving | 17 April 2008   | 1,186           | 22,288                |
| 8 <sup>th</sup> revolving | 16 July 2008    | 1,319           | 24,493                |
| 9 <sup>th</sup> revolving | 16 October 2008 | 1,448           | 25,616                |
| <b>Total</b>              |                 | <b>9,509</b>    | <b>175,134</b>        |

For the operation, the vehicle company issued the following securities:

| Class    | Rating  | Amount<br>(in Euro) |
|----------|---------|---------------------|
| A Senior | Aaa     | 151,450,000         |
| B Junior | unrated | 18,700,000          |
| A Senior | Aaa     | 131,500,000         |
| B Junior | unrated | 16,250,000          |
| A Senior | Aaa     | 79,150,000          |
| B Junior | unrated | 9,800,000           |

Apulia Prontoprestito signed the Class B junior securities.

#### Securitisation in October 2006

In the financial year 2006, BancApulia concluded the securitisation of performing mortgages. The operation, which began in March 2005, concerned loans for a total of Euro 405 million and the securities were sold on 17 May 2005 to the "bridge" company Apulia Finance n. 3 srl, and then to the vehicle company Apulia Finance n. 4 srl, founded pursuant to law 240/99. Later, on 6 October 2006, BancApulia sold another tranche for Euro 117 million directly to Apulia Finance n. 4 srl.

To sum up, the sales carried out were:

- 16 March 2005 Euro 108.9 million to Apulia Finance n. 3 srl; 15 July 2005 Euro 32.2 million to Apulia Finance n. 3 srl;
- 16 November 2005 Euro 32.3 million to Apulia Finance n. 3 srl;
- 17 February 2006 Euro 43 million to Apulia Finance n. 3 srl;
- 17 May 2006 Euro 72 million to Apulia Finance n. 3 srl;
- 6 October 2006 Euro 117 million to Apulia Finance n. 4 srl.

In exchange for the portfolio sold, Apulia Finance n. 4 srl, the SPV acquiring the portfolio, issued asset backed securities for a total of Euro 391.250 million, broken-down as follows:

| Class | Rating                       | Amount<br>(in Euro) |
|-------|------------------------------|---------------------|
| A     | AAA (Fitch)<br>Aaa (Moody's) | 346,900,000         |
| B     | A (Fitch)<br>Aa1 (Moody's)   | 11,300,000          |
| C     | BBB (Fitch)<br>A2 (Moody's)  | 19,100,000          |
| D     | Unrate                       | 13,950,000          |

BancApulia holds class B, C and D securities in its portfolio.

#### Securitisation January 2007

During the 2007 year, Veneto Banca Holding in collaboration with Banca Meridiana (now BancApulia) and Banca di Bergamo (then merged in Veneto Banca) carried out securitisation on mortgage loans for a total of Euro 517 million which were transferred at a price equal to the value of the residual capital debt existing at the time of transfer (1 January 2007).

With the transfer of the portfolio, Claris Finance 2007 srl, the vehicle company which acquired the portfolio issued asset backed securities for a total amount of Euro 517.03 million, broken down as follows:

| Class | Rating<br>(S&P e Fitch) | Amount<br>(in Euro) |
|-------|-------------------------|---------------------|
| A     | AAA                     | 488,600,000         |
| B     | AA                      | 6,450,000           |
| C     | BBB                     | 13,200,000          |
| D1    | unrated                 | 5,594,316           |
| D2    | unrated                 | 1,343,022           |
| D3    | unrated                 | 1,838,141           |

Class A, B and C securities are denominated in Euro, pay a quarterly coupon at a variable rate and have a sequential repayment plan correlated to portfolio collections. These bonds listed on the Dublin (Ireland) Stock Exchange were placed with institutional investors.

Class D1, D2 and D3 securities are denominated in Euro and do not have an official rating. Their yield is determined residually and is paid only in proportion to the amount by which collections on the portfolio transferred exceed the amount of expenses and payouts correlated to bonds of a higher class.

| On the securitisation date                   | Veneto Banca spa | Banca di Bergamo | Banca Meridiana (now BancApulia) | Total   |
|--|------------------|------------------|----------------------------------|---------|
| Number of loans                              | 2,659            | 611              | 1,369                            | 4,639   |
| Number of borrowers                          | 2,635            | 609              | 1,366                            | 4,610   |
| Residual capital debt (in thousands of Euro) | 329,910          | 78,974           | 108,141                          | 517,025 |
| Average loan amount (in thousands of Euro)   | 124              | 129              | 79                               | 111     |
| Maximum loan amount (in thousands of Euro)   | 1,151            | 774              | 665                              | 1,151   |

#### Securitisation March 2009 "leasing"

During 2009, the subsidiary Claris Leasing spa carried out a securitisation of leasing agreements amounting to Euro 449,340 million. The transfer was made at a price which was equal to the value of the residual debt on the outstanding principal and was finalised on 9 March 2009.

"Claris Lease Finance 2009 srl", a special purpose vehicle that purchased the transferred portfolio, issued asset-backed securities for a total value of € 449,400 millio, broken down as follows:

| Class | Rating (S&P) | Amount (in Euro) |
|-------|--------------|------------------|
| A     | AAA          | 319,000,000      |
| B     | A            | 53,000,000       |
| C     | Unrated      | 77,400,000       |

Class A securities are denominated in Euro and pay a half-year floating rate coupon and have a sequential repayment schedule linked to the collections from the underlying loan portfolio since October 2011. These bonds, listed on the Dublin (Ireland) Stock Exchange were underwritten by the Parent Company Veneto Banca. Notes rated "AAA" can therefore be used for repurchase agreements with the European Central Bank.

Class B securities were underwritten by the Parent Company Veneto Banca.

Class C securities, underwritten by Claris Leasing, are denominated in Euro and have no official rating. The return on these securities is calculated on an as-outstanding basis and is paid only to the extent that collections on the portfolio transferred exceed the amount of costs and expenses connected to the bonds of a higher class.

The following table summarizes the composition of the transferred portfolio:

| As at securitisation date                          | Claris Leasing |
|--|----------------|
| Number of mortgage loans                           | 2,713          |
| Residual principal debt (amounts in Euro thousand) | 449,340        |
| Average mortgage amount (amounts in Euro thousand) | 166            |

#### Securitisation December 2009 "non performing loans"

During 2009, the subsidiaries Veneto Banca spa, Banca Meridiana spa and Banca Popolare di Intra spa, effected a securitisation transaction of non performing loans, that had at least one mortgage-backed credit facility, a nominal total of Euro 262.8 million. The transaction concerned both residential and commercial loans amounting to, respectively for the three banks, Euro 91.7 million, Euro 25.8 million and Euro 145.3 million. The transfer was finalised on 15 December 2009, with economic and juridical effects since 30 November 2009, and took place at a total price of Euro 195.5 million.

"BVG Credit Finance srl", a special purpose vehicle that purchased the transferred portfolio, issued asset-backed securities for a total value of € 195.6 million, broken down as follows:

| Classe | Rating  | Ammontare (in Euro) |
|--------|---------|---------------------|
| A      | unrated | 167,700,000         |
| B      | unrated | 13,700,000          |
| C      | unrated | 14,200,000          |

Class A securities, underwritten by the Parent Company Veneto Banca are denominated in Euro and pay a half-year fixed rate and have a sequential repayment schedule linked to the collections from the underlying loan portfolio starting from July 2011.

Class B and C securities have been transferred to an institutional investor. Their yield is paid only insofar as the collections from the transferred portfolio exceed the amount of expenses and disbursements

related to higher class bonds. The above mentioned do not have an official rating and are not listed in any regulated market.

The following table summarizes the composition of the transferred portfolio:

| As at securitisation date                          | Veneto Banca spa | Banca Meridiana (now BancApulia) | Banca Popolare di Intra | Total   |
|--|------------------|----------------------------------|-------------------------|---------|
| Number of debtors                                  | 220              | 92                               | 593                     | 905     |
| Residual principal debt (amounts in Euro thousand) | 91,697           | 25,805                           | 145,285                 | 262,787 |
| Average debt amount (amounts in Euro thousand)     | 417              | 280                              | 245                     | 290     |
| Debt maximum amount (amounts in Euro thousand)     | 9,131            | 3,330                            | 14,070                  | 14,070  |

## SELF-SECURITISATION OPERATIONS

In addition to "traditional" securitisation, in 2008 and 2009, the Group completed five sales through special vehicle companies, proceeding to fully underwrite the notes issued against the credits sold (so-called "self-securitisation").

### Securitisation June 2008

During the 2008 year, the subsidiary, Veneto Banca spa (then merged in Veneto Banca), together with Banca Popolare di Intra spa (then merged in Veneto Banca), securitised mortgage loans for a total of Euro 592,249 million. The transaction concerned both residential and commercial loans equal to Euro 439 million and Euro 153 million respectively. The transfer was made at a price equal to the value of the residual capital debt and was concluded on 10 June 2008 with financial and legal effect on 1 May 2008.

With the transfer of the portfolio, Claris Finance 2008 srl, the vehicle company which acquired the portfolio issued asset backed securities for a total amount of Euro 592,249 million, broken down as follows:

| Class | Rating (Fitch) | Amount (in Euro) |
|-------|----------------|------------------|
| A     | AAA            | 492,350,000      |
| B     | BBB            | 44,450,000       |
| C1    | unrated        | 41,059,039       |
| C2    | unrated        | 14,389,822       |

Class A and B securities denominated in Euro pay a semi-annual coupon at a variable rate and their sequential repayment plan is correlated to the underlying portfolio collections starting from December 2009. These bonds listed on the Dublin (Ireland) Stock Exchange were underwritten by the parent company, Veneto Banca Holding. Notes with an "AAA" rating can therefore be used in repos transaction at the Central European Bank.

Class C1 and C2 securities underwritten respectively by Veneto Banca SpA and Banca Popolare di Intra (and therefore now in the portfolio of Veneto Banca after the merger operation) are denominated in Euro and are not rated. Their yield is determined residually and is paid only in proportion to the amount by which collections on the portfolio transferred exceed the amount of expenses and payouts correlated to bonds of a higher class.

The table below shows a summary of the composition of the portfolios transferred.

| On the securitisation date                   | Veneto Banca spa | Banca Popolare di Intra | Total   |
|--|------------------|-------------------------|---------|
| Number of loans                              | 2,375            | 1,142                   | 3,517   |
| Number of borrowers                          | 2,352            | 1,044                   | 3,396   |
| Residual capital debt (in thousands of Euro) | 438,916          | 153,333                 | 592,249 |
| Average loan amount (in thousands of Euro)   | 185              | 134                     | 160     |
| Maximum loan amount (in thousands of Euro)   | 1,973            | 1,358                   | 1,973   |

### Securitisation January 2009

During 2009, the subsidiaries Veneto Banca spa, Banca Popolare di Intra spa (then merged in Veneto Banca scpa) and Banca Meridiana spa (now BancApulia), effected a securitisation transaction of mortgage loans amounting to Euro 608.885 million. The transaction concerned residential loans. The transfer was made at a price which was equal to the value of the residual debt on the outstanding

principal and was finalised on 28 January 2009 with economic and juridical effects since 1<sup>st</sup> January 2009.

"Claris Finance 2009 srl", a special purpose vehicle that purchased the transferred portfolio, issued asset-backed securities for a total value of € 608,885 million, broken down as follows:

| Class | Rating (Fitch) | Amount (in Euro) |
|-------|----------------|------------------|
| A     | AAA            | 547,950,000      |
| B1    | unrated        | 31,638,460       |
| B2    | unrated        | 20,847,370       |
| B3    | unrated        | 8,448,790        |

Class A securities denominated in Euro and pay a half-year floating rate coupon and have a sequential repayment schedule linked to the collections from the underlying loan portfolio since October 2010. These bonds, listed on the Dublin (Ireland) Stock Exchange were underwritten by the Parent Company Veneto Banca Holding. Notes rated "AAA" can therefore be used for repurchase agreements with the European Central Bank.

Class B1, B2 and B3, respectively underwritten by Veneto Banca spa, Banca Popolare di Intra spa and Banca Meridiana spa (now BancApulia), are denominated in Euro and have no official rating. The return on these securities is calculated on an as-outstanding basis and is paid only to the extent that collections on the portfolio transferred exceed the amount of costs and expenses connected to the bonds of a higher class.

The following table summarizes the composition of the transferred portfolio:

| As at securitisation date                          | Veneto Banca spa | Banca Meridiana (now BancApulia) | Banca Popolare di Intra | Total   |
|--|------------------|----------------------------------|-------------------------|---------|
| Number of mortgage loans                           | 2,728            | 817                              | 2,501                   | 6,046   |
| N. of customers mortgage loans                     | 2,715            | 815                              | 2,470                   | 6,000   |
| Residual principal debt (amounts in Euro thousand) | 316,145          | 84,424                           | 208,316                 | 608,885 |
| Average mortgage amount (amounts in Euro thousand) | 116              | 104                              | 84                      | 101     |
| Mortgage maximum amount (amounts in Euro thousand) | 936              | 794                              | 894                     | 936     |

#### Securitisation September 2009

During 2009, the subsidiaries Veneto Banca spa, Banca Popolare di Intra spa (then merged in Veneto Banca spa) and Banca Meridiana spa (now BancApulia spa) effected a securitisation transaction of mortgage loans amounting to Euro 740,102 million. The transaction concerned both residential loans. The transfer was made at a price which was equal to the value of the residual debt on the outstanding principal and was finalised on 9 September 2009, with economic and juridical effects since 1<sup>o</sup> September 2009.

"Claris Finance 2009 srl", a special purpose vehicle that purchased the transferred portfolio, issued asset-backed securities for a total value of € 740,102 million, broken down as follows:

| Class | Rating (Fitch) | Amount (in Euro) |
|-------|----------------|------------------|
| A     | AAA            | 648,300,000      |
| B1    | Unrated        | 40,108,171       |
| B2    | Unrated        | 41,944,205       |
| B3    | Unrated        | 9,749,342        |

Class A securities are denominated in Euro and pay a half-year floating rate coupon and have a sequential repayment schedule linked to the collections from the underlying loan portfolio since April 2011. These bonds, listed on the Dublin (Ireland) Stock Exchange were underwritten by the Parent Company Veneto Banca Holding. Notes rated "AAA" can therefore be used for repurchase agreements with the European Central Bank.

Class B1, B2 and B3 securities, respectively underwritten by Veneto Banca spa, Banca Popolare di Intra spa (and therefore now in the portfolio of Veneto Banca after the merger operation) and Banca Meridiana spa (now BancApulia), are denominated in Euro and have no official rating. The return on these securities is calculated on an as-outstanding basis and is paid only to the extent that collections on the portfolio transferred exceed the amount of costs and expenses connected to the bonds of a higher class.

The following table summarizes the composition of the transferred portfolio:



| As at securitisation date                          | Veneto Banca spa | Banca Meridiana (now BancApulia) | Banca Popolare di Intra | Total   |
|--|------------------|----------------------------------|-------------------------|---------|
| Number of mortgage loans                           | 2,617            | 699                              | 2,989                   | 6,305   |
| N. of customers mortgage loans                     | 2,613            | 698                              | 2,966                   | 6,277   |
| Residual principal debt (amounts in Euro thousand) | 323,338          | 78,640                           | 338,123                 | 740,102 |
| Average mortgage amount (amounts in Euro thousand) | 124              | 113                              | 113                     | 117     |
| Mortgage maximum amount (amounts in Euro thousand) | 1,462            | 1,255                            | 971                     | 1,462   |

#### Transaction completed in July 2008

In May 2008, bancApulia concluded a self-securitisation transaction, selling a loans and receivables portfolio comprising performing mortgage loans for a total of € 378 million.

The settlement and completion of the transaction took place the following July. The counter-entry to the sale was settled with the issue of notes by Apulia Finance n. 4 srl, entirely subscribed by the originator bancApulia.

On this transaction, BancApulia did not record any gains or losses as the sale took place at par with a price of € 378 million.

| Class | Rating        | Amount (in Euro) |
|-------|---------------|------------------|
| A     | Aaa (Moody's) | 319,850,000      |
| B     | unrated       | 58,550,000       |

Class A and B securities are listed with the Stock Exchange of Luxembourg and provide for the payment of a six-monthly variable rate coupon and a repayment on a sequential basis, relating to the collections on the underlying loans and receivables portfolio.

Class B bonds are in euros, have no official rating and their performance is determined in a residual manner and only paid to the extent that the collections of the portfolio sold exceed the costs and outlays relating to the superior class bond.

The transaction is completed by a swap contract between the SPV and BNP Paribas in order to cover the rate risk deriving from the different indexing and regularity of interest on securitised loans and interest paid on bond securities issued.

This contract established that counterparties shall settle, once every six months, the difference in rates as shown above, calculated on the average of the nominal value of the residual capital of loans at the start and end date of each reference period.

A similar contract, with the opposite sign, was signed between BNP and BancApulia.

The management, administration and collection service of loans and the litigation management service is entrusted to BancApulia.

As of 31 December 2010, the book value of the residual receivables amounted to € 284.4 million.

#### Transaction completed in November 2008

In November 2008, bancApulia concluded a second self-securitisation transaction.

This transaction had a warehousing period that started in 2007 with the sale of performing home mortgages to the bridge SPV "Apulia Finance n. 3 srl". In September 2008, the residual loans were transferred to the definitive SPV "Apulia Finance n. 4 srl" and the following November, the transaction was completed with issue of the notes.

More specifically:

- July 2007: BancApulia sold performing mortgages to Apulia Finance n.3 srl for an amount of € 129.9 million;
- October 2007: BancApulia sold a further portfolio of performing mortgages to Apulia Finance n.3 srl for an amount of € 77.5 million;
- January 2008: BancApulia sold a further portfolio of performing mortgages to Apulia Finance n.3 srl for an amount of € 95.5 million;
- September 2008: the residual value of securitised credits, amounting to € 256 million, was sold by the temporary vehicle Apulia Finance n.3 srl to the definitive vehicle Apulia Finance n.4;
- September 2008: BancApulia sold the last portfolio of performing mortgages to Apulia Finance n.4 srl for an amount of € 56.5 million.

Upon defining the transaction, the loans and receivables held by Apulia Finance n.4 amounted to € 310 million. The main characteristics of securitised loans are:

- loans guaranteed by an "economic" first level mortgage;
- loans in which the ratio of the amount originally loaned and the value of the property mortgaged (as stated in the related Mortgage Agreement) does not exceed 80%;

- loans whose amounts due in capital line, excluding interest accrued, do not exceed € 500,000.00.

The notes issued by the SPV have been entirely subscribed by BancApulia.

| Class | Rating        | Amount<br>(in Euro) |
|-------|---------------|---------------------|
| A     | Aaa (Moody's) | 288,450,000         |
| B     | unrated       | 24,1000,000         |

Class A and B securities are listed with the Stock Exchange of Luxembourg and provide for the payment of a six-monthly variable rate coupon and a repayment on a sequential basis, relating to the collections on the underlying loans and receivables portfolio.

Class B bonds are in euros, have no official rating and their performance is determined in a residual manner and only paid to the extent that the collections of the portfolio sold exceed the costs and outlays relating to the superior class bond.

The transaction is completed by a swap contract between the SPV and BNP Paribas in order to cover the rate risk deriving from the different indexing and regularity of interest on securitised loans and interest paid on bond securities issued.

This contract established that counterparties shall settle, once every six months, the difference in rates as shown above, calculated on the average of the nominal value of the residual capital of loans at the start and end date of each reference period.

A similar contract, with the opposite sign, was signed between BNP and BancApulia.

The management, administration and collection service of loans and the litigation management service is entrusted to BancApulia.

As of 31 December 2010, the book value of the residual receivables amounted to € 246.4 million.

## QUANTITATIVE INFORMATION

### EXPOSURES DERIVING FROM SECURITISATION ACTIVITIES CLASSIFIED ACCORDING TO THE QUALITY OF THE UNDERLYING ASSETS

| Quality of underlying asset/Exposure |  | Cash Exposures |              |                |              |                |              | Guarantees provided |              |                |              |                |              | Credit line    |              |                |              |                |              |
|--------------------------------------|--|----------------|--------------|----------------|--------------|----------------|--------------|---------------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
|                                      |  | Senior         |              | Mezzanine      |              | Junior         |              | Senior              |              | Mezzanine      |              | Junior         |              | Senior         |              | Mezzanine      |              | Junior         |              |
|                                      |  | Gross Exposure | Net Exposure | Gross Exposure | Net Exposure | Gross Exposure | Net Exposure | Gross Exposure      | Net Exposure | Gross Exposure | Net Exposure | Gross Exposure | Net Exposure | Gross Exposure | Net Exposure | Gross Exposure | Net Exposure | Gross Exposure | Net Exposure |
| <b>A.</b>                            | <b>With own underlying assets:</b>         |                | 2,014,821    | 30,400         | 215,683      | 580,991        | 402,564      |                     |              |                |              |                |              |                |              |                |              |                |              |
| a)                                   | Non-performing                             |                |              |                |              | 40,498         |              |                     |              |                |              |                |              |                |              |                |              |                |              |
| b)                                   | Other                                      |                | 2,014,821    | 30,400         | 215,683      | 580,991        | 362,066      |                     |              |                |              |                |              |                |              |                |              |                |              |
| <b>B.</b>                            | <b>with third party underlying assets:</b> |                |              |                |              |                |              |                     |              |                |              |                |              |                |              |                |              |                |              |
| a)                                   | Non-performing                             |                |              |                |              |                |              |                     |              |                |              |                |              |                |              |                |              |                |              |
| b)                                   | Other                                      |                |              |                |              |                |              |                     |              |                |              |                |              |                |              |                |              |                |              |

Exposures deriving by the main "own" securitisation activities analysed by type of securitised assets and type of exposure

| Type of securitised asset/Exposure |  | Cash exposures      |                  |                     |                  |                     |                  | Guarantees provided |                  |                     |                  |                     |                  | Credit lines        |                  |                     |                  |                     |                  |
|------------------------------------|--|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
|                                    |  | Senior              |                  | Mezzanine           |                  | Junior              |                  | Senior              |                  | Mezzanine           |                  | Junior              |                  | Senior              |                  | Mezzanine           |                  | Junior              |                  |
|                                    |  | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs | Balance-sheet value | Adj./Write-backs |
| <b>A.</b>                          | <b>Completely derecognised from accounts</b> | <b>171,034</b>      |                  |                     |                  | <b>13,000</b>       |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| A.1                                | Intra Mortgage Finance 1                     |                     |                  |                     |                  | 13,000              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             |                     |                  |                     |                  | 13,000              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| A.2                                | BVG – Credit Finance                         | 171,034             |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Non performing loan                        | 171,034             |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| <b>B.</b>                          | <b>Partially derecognised from accounts</b>  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| <b>C.</b>                          | <b>Not derecognised from accounts</b>        | <b>1,843,787</b>    |                  |                     |                  | <b>389,564</b>      |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.1                                | Claris Finance 2005                          | 52,815              |                  |                     |                  | 9,514               |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             | 52,815              |                  |                     |                  | 9,514               |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.2                                | Claris Finance 2006                          |                     |                  |                     |                  | 2,850               |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             |                     |                  |                     |                  | 2,850               |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.3                                | Claris Finance 2007                          | 87,981              |                  |                     |                  | 13,970              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             | 87,981              |                  |                     |                  | 13,970              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.4                                | Claris Finance 2008                          | 289,898             |                  |                     |                  | 55,449              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             | 289,898             |                  |                     |                  | 55,449              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.5                                | Claris Finance 2009                          | 401,826             |                  |                     |                  | 63,432              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             | 401,826             |                  |                     |                  | 63,432              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.6                                | Claris Finance 2009                          | 648,300             |                  |                     |                  | 93,974              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             | 648,300             |                  |                     |                  | 93,974              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.7                                | Claris Lease Finance 2009                    | 319,000             |                  |                     |                  | 53,000              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Leasing agreements                         | 319,000             |                  |                     |                  | 53,000              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.8                                | Apulia Finance n. 2                          |                     |                  |                     |                  | 9,311               |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             |                     |                  |                     |                  | 9,311               |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.9                                | Apulia Mortgages Finance n. 3                |                     |                  |                     |                  | 16,668              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             |                     |                  |                     |                  | 16,668              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.10                               | Apulia Finance n. 4                          | 27,624              |                  |                     |                  | 26,647              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Mortgage loans                             | 27,624              |                  |                     |                  | 26,647              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
| C.11                               | Apulia Finance n. 5 Cessioni                 | 16,342              |                  |                     |                  | 44,750              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |
|                                    | - Consumer credit                            | 16,342              |                  |                     |                  | 44,750              |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |                     |                  |

## EXPOSURES TO SECURITISATIONS CLASSIFIED BY FINANCIAL ASSET PORTFOLIO AND TYPE

| Exposure/portfolio                    | Financial assets – held for trading | Financial assets designated at fair value option | Financial assets available for sale | Financial assets – held to maturity | Receivables | Total 31/12/2010 | Total 31/12/2009 |
|---------------------------------------|-------------------------------------|--|-------------------------------------|-------------------------------------|-------------|------------------|------------------|
| <b>1. Cash Exposures</b>              |                                     |  | 13,000                              |                                     | 168,009     | 181,009          | 244,436          |
| - Senior                              |                                     |  |                                     |                                     | 168,009     | 168,009          | 183,027          |
| - Mezzanine                           |                                     |  |                                     |                                     |             |                  | 25,669           |
| - Junior                              |                                     |  | 13,000                              |                                     |             | 13,000           | 35,740           |
| <b>2. Off-Balance Sheet Exposures</b> |                                     |  |                                     |                                     |             |                  |                  |
| - Senior                              |                                     |  |                                     |                                     |             |                  |                  |
| - Mezzanine                           |                                     |  |                                     |                                     |             |                  |                  |
| - Junior                              |                                     |  |                                     |                                     |             |                  |                  |

## AGGREGATE AMOUNT OF SECURITISED ASSETS UNDERLYING JUNIOR SECURITIES OR OTHER FORMS OF CREDITWORTHINESS SUPPORT

| Assets/Value |   | Traditional securitisations | Synthetic securitisations |
|--------------|---|-----------------------------|---------------------------|
| <b>A.</b>    | <b>Own underlying assets</b>              | <b>2,266,895</b>            |                           |
| A.1          | Completely derecognised from the accounts | 180,700                     | X                         |
| 1.           | Non-performing                            | 167,700                     | X                         |
| 2.           | Watch list                                |                             | X                         |
| 3.           | Restructured loans                        |                             | X                         |
| 4.           | Expired loans                             |                             | X                         |
| 5.           | Other assets                              | 13,000                      | X                         |
| A.2          | Partially derecognised from accounts      |                             | X                         |
| 1.           | Non-performing                            |                             | X                         |
| 2.           | Watch list                                |                             | X                         |
| 3.           | Restructured loans                        |                             | X                         |
| 4.           | Expired loans                             |                             | X                         |
| 5.           | Other assets                              |                             | X                         |
| A.3          | Not derecognised                          | 2,086,195                   |                           |
| 1.           | Non-performing                            | 54,098                      |                           |
| 2.           | Watch list                                | 38,055                      |                           |
| 3.           | Restructured loans                        |                             |                           |
| 4.           | Expired loans                             | 16,341                      |                           |
| 5.           | Other assets                              | 1,977,701                   |                           |
| <b>B.</b>    | <b>Third party underlying assets</b>      |                             |                           |
| B.1          | Non-performing                            |                             |                           |
| B.2          | Watch list                                |                             |                           |
| B.3          | Restructured loans                        |                             |                           |
| B.4          | Expired loans                             |                             |                           |
| B.5          | Other assets                              |                             |                           |

## SERVICING ACTIVITIES - COLLECTION OF SECURITISED LOANS AND REDEMPTION OF THE SECURITIES ISSUED BY THE SPECIAL PURPOSE VEHICLE

On behalf of Claris Finance 2005, Claris Finance 2006 srl, Claris Finance 2007, Claris Finance 2008 srl, Claris Finance 2009 srl (first and second issue), Intra Mortgage Finance 1 srl and BVG Credit Finance srl, Veneto Banca performs the service of management, administration and collection of the loans transferred.

The same service was also provided for Claris Finance srl and for Claris Finance 2003 srl until the securitisation operations were completed. On behalf of Claris Lease Finance 2009, Claris Leasing spa perform the service of management, administration and collection of the loans transferred.

The subsidiary BancApulia, however, provides for the management, administration and collection of transferred credit on behalf of Apulia Finance n. 2 srl, Apulia Finance n. 4 srl, and Apulia Mortgages Finance n. 3 srl, and also provided the same service for Apulia Finance srl until the securitisation operation had been concluded. In turn, the company Apulia Prontoprestito provides for the management, administration and collection of the credit sold on behalf of Apulia Finance n. 5 Cessioni srl.

Right from the first transaction, the companies that act as servicers set up an autonomous organizational system that enables the complete separation of collections on securitized assets. The Bank, therefore, remains the only counterparty of the customer, although it acts in the name and on behalf of the vehicle. This type of contract, known as "servicing", provides also for the dispute management service.

All the work of monitoring the evolution of the credit and the associated risks, is carried out with the same methods with which loans not transferred are managed.  
Particular organizational monitoring was also put in place to assess exposure to the residual risk represented by Junior securities and any subordinated loans granted to the special purpose vehicle (S.P.V.).

| Servicer                  | Company/Vehicle                   | Securitised assets<br>(end of period figure) |                 | Loans collected<br>during the year |                 | Percentage of securities redeemed (end of period figure) |                 |                   |                 |                   |                 |
|---------------------------|-----------------------------------|--|-----------------|------------------------------------|-----------------|--|-----------------|-------------------|-----------------|-------------------|-----------------|
|                           |                                   | Non<br>performing                            | Perform-<br>ing | Non<br>performing                  | Perform-<br>ing | Senior   |                 | Mezzanine         |                 | Junior            |                 |
|                           |                                   |  |                 |                                    |                 | Non<br>performin<br>g                                    | Perform-<br>ing | Non<br>performing | Perform-<br>ing | Non<br>performing | Perform-<br>ing |
| Veneto Banca scpa         | Claris Finance                    |  |                 |                                    |                 |  | 100.0%          |                   |                 |                   |                 |
| Veneto Banca scpa         | Claris Finance 2003               |  |                 |                                    |                 |  | 100.0%          |                   |                 |                   |                 |
| Veneto Banca scpa         | Claris Finance 2005               | 13,606                                       | 166,639         |                                    | 48,564          |  | 23.4%           |                   |                 |                   |                 |
| Veneto Banca scpa         | Claris Finance 2006               | 3,447  | 195,495         |                                    | 47,595          |  | 7.2%            |                   |                 |                   |                 |
| Veneto Banca scpa         | Claris Finance 2007               | 12,255                                       | 230,594         |                                    | 44,488          |  | 14.3%           |                   |                 |                   |                 |
| Veneto Banca scpa         | Claris Finance 2008               | 6,619  | 381,219         |                                    | 99,224          |  | 23.9%           |                   |                 |                   |                 |
| Veneto Banca scpa         | Claris Finance 2009-1             | 2,347  | 376,773         |                                    | 104,999         |  | 26.7%           |                   |                 |                   |                 |
| Veneto Banca scpa         | Claris Finance 2009-2             | 307  | 568,755         |                                    | 108,010         |  |                 |                   |                 |                   |                 |
| Veneto Banca scpa         | Intra Mortgage Finance 1          | 12,074                                       | 79,956          | 610                                | 25,664          |  |                 |                   |                 |                   |                 |
| Veneto Banca scpa         | BVG Credit Finance                | 176,723                                      |                 | 18,878                             |                 |  |                 |                   |                 |                   |                 |
| Claris Leasing spa        | Claris Lease Finance 2009         | 6,825  | 311,206         | 1,183                              | 55,202          |  | 34.6%           |                   |                 |                   |                 |
| BancApulia spa            | Apulia Finance srl                |  |                 | 1,194                              | 3,853           |  |                 |                   |                 |                   |                 |
| BancApulia spa            | Apulia Finance n. 2 srl           | 5,693  | 50,369          | 279                                | 13,314          |  | 75.5%           |                   |                 |                   |                 |
| BancApulia spa            | Apulia Mortgages Finance n. 3 srl | 9,994  | 89,918          | 648                                | 19,523          |  | 68.13%          |                   |                 |                   |                 |
| BancApulia spa            | Apulia Finance n. 4 srl           | 17,482                                       | 209,578         | 1,409                              | 39,087          |  | 42.25%          |                   |                 |                   |                 |
| Apulia Prontoprestito spa | Apulia Finance n. 5 Cessioni srl  | 174  | 151,345         |                                    | 78,013          |  | 52.24%          |                   |                 |                   |                 |

## TRANSFER OPERATIONS

### ASSETS TRANSFERRED BUT NOT WRITTEN OFF

| Technical form/portfolio  | Financial assets held for trading |   |   | Financial assets designated at fair value |   |   | Financial assets available for sale |   |   | Financial assets held to maturity |   |   | Loans to banks |   |   | Loans to customers |   |   | Total 31/12/2010 | Total 31/12/2009 |
|---------------------------|-----------------------------------|---|---|---|---|---|-------------------------------------|---|---|-----------------------------------|---|---|----------------|---|---|--------------------|---|---|------------------|------------------|
|                           | A                                 | B | C | A   | B | C | A                                   | B | C | A                                 | B | C | A              | B | C | A                  | B | C |                  |                  |
| <b>A. Cash assets</b>     | <b>7,306</b>                      |   |   |   |   |   | <b>85,891</b>                       |   |   | <b>2,653</b>                      |   |   | <b>122,924</b> |   |   | <b>264,613</b>     |   |   | <b>483,387</b>   | <b>2,973,982</b> |
| 1. Debt securities        | 7,306                             |   |   |   |   |   | 85,891                              |   |   | 2,653                             |   |   | 122,924        |   |   | 264,613            |   |   | 483,387          | 416,116          |
| 2 Equity securities       |                                   |   |   |   |   |   |                                     |   | X | X                                 | X | X | X              | X | X | X                  | X | X |                  |                  |
| 3. Mut. Inv. Funds        |                                   |   |   |   |   |   |                                     |   | X | X                                 | X | X | X              | X | X | X                  | X | X |                  |                  |
| 4. Loans                  |                                   |   |   |   |   |   |                                     |   |   |                                   |   |   |                |   |   |                    |   |   |                  | 2,557,866        |
| <b>B. Derivatives</b>     |                                   |   |   | X   | X | X | X                                   | X | X | X                                 | X | X | X              | X | X | X                  | X | X |                  |                  |
| <b>Total 31/12/2010</b>   | <b>7,306</b>                      |   |   |   |   |   | <b>85,891</b>                       |   |   | <b>2,653</b>                      |   |   | <b>122,924</b> |   |   | <b>264,613</b>     |   |   | <b>483,387</b>   |                  |
| - of which non performing |                                   |   |   |   |   |   |                                     |   |   |                                   |   |   |                |   |   |                    |   |   |                  |                  |
| <b>Total 31/12/2009</b>   | <b>481</b>                        |   |   |   |   |   | <b>77,325</b>                       |   |   |                                   |   |   | <b>49,827</b>  |   |   | <b>2,846,830</b>   |   |   |                  | <b>2,973,982</b> |
| - of which non performing |                                   |   |   |   |   |   |                                     |   |   |                                   |   |   |                |   |   | 66,075             |   |   |                  | 66,075           |

#### Legenda:

- A = financial assets disposed of, fully recognised (book value)
- B = financial assets disposed of, partly recognised (book value)
- C = financial assets disposed of, partly recognised (full value)

**FINANCIAL LIABILITIES RELATING TO FINANCIAL ASSETS TRANSFERRED BUT NOT WRITTEN-OFF**

| Liabilities/ Asset portfolio                       | Financial assets held for trading | Financial assets designated at fair value | Financial assets available for sale | Financial assets held to maturity | Loans to banks | Loans to customers | Total 31/12/2010 |
|--|-----------------------------------|---|-------------------------------------|-----------------------------------|----------------|--------------------|------------------|
| <b>1. Due to customers</b>                         | 128,345                           |   | 70,228                              | 2,669                             | 605,215        | 16,214             | 822,671          |
| a) relating to assets recognised in their entirety | 128,345                           |   | 70,228                              | 2,669                             | 605,215        | 16,214             | 822,671          |
| b) relating to assets recognised partially         |                                   |   |                                     |                                   |                |                    |                  |
| <b>2. Due to banks</b>                             | 24,250                            |   | 340,893                             |                                   |                | 548,182            | 913,325          |
| a) relating to assets recognised in their entirety | 24,250                            |   | 340,893                             |                                   |                | 548,182            | 913,325          |
| b) relating to assets recognised partially         |                                   |   |                                     |                                   |                |                    |                  |
| <b>3. Outstanding Securities</b>                   |                                   |   |                                     |                                   |                | 985,827            | 985,827          |
| a) relating to assets recognised in their entirety |                                   |   |                                     |                                   |                | 985,827            | 985,827          |
| b) relating to assets recognised partially         |                                   |   |                                     |                                   |                |                    |                  |
| <b>Total 31/12/2010</b>                            | 152,595                           |   | 411,121                             | 2,669                             | 605,215        | 1,550,223          | 2,721,823        |
| <b>Total 31/12/2009</b>                            |                                   |   | 77,343                              |                                   | 48,755         | 2,418,274          | 2,544,372        |

The item "Securities in issue" include the bonds issued by the vehicle company within the sphere of the securitisation operations.



## TABLE 12 OPERATIONAL RISK

### QUALITATIVE NOTICE

Of the three possible methods indicated in the regulations for determining the capital requirements against operational risk, the Group chose to adopt the Basic Indicator Approach (BIA) method; on that basis, the above-mentioned requirement is calculated by applying one sole regulatory ratio to the indicator of the volume of corporate operativeness identified in the earning margin.

Specifically the capital requirement is equal to 15 percent of the average of the last three recordings of the relevant indicator referring to the year end situation.

Therefore with reference to the 2010 year, the requirement is geared to Euro 141.9 million.

## TABLE 13 - CAPITAL INSTRUMENTS EXPOSURE: INFORMATION ON POSITIONS INCLUDED IN THE BANK PORTFOLIO

### QUALITATIVE NOTICE

#### EQUITY INVESTMENTS

The equity investments in the portfolio are held for strategic purposes (group equity investments, affiliated companies), institutional purposes (equity investments in trade associations, bodies and institutions with territorial links) instrumental to bank operations and to the development of commercial business for financial investment. There are also some equity investments not considered strategic which are being disinvested and equity in companies under liquidation.

Equity investments are entered on the balance sheet at their purchase value inclusive of any accessory charges.

Fair value assessment procedures for the equity investments are established on a case by case basis depending on the specificity of each investment. Assessment procedures include recourse to market prices for listed companies, and for companies that are not listed, to recent transactions, to market multiples and to any opinions and/or sales agreements available that can establish the future sale price. If there is evidence that the value of an equity investment may have suffered a reduction, an estimate is made of the recoverable value of that equity investment, taking into account the current value of future financial flows which the equity investment may generate, including the final disinvestment value of the investment.

When the recovery value is lower than the accounting value, the relative difference is entered in the profit and loss account under the item "profit (loss) on investments".

Equity investments are cancelled when the contractual rights mature on financial flows deriving from those assets or when the equity investment is sold and all risks and benefits relating to it are transferred.

Equity investments are mainly but not exclusively classified for balance sheet purposes among the financial assets available for sale and the equity investments themselves.

#### FINANCIAL ASSETS AVAILABLE FOR SALE

This item includes the shareholdings not managed for trading purposes and which cannot be qualified for control, affiliation and joint control.

The initial entry of the financial asset takes place on the settlement date.

At the moment of the initial recording, the assets are entered at cost, taken as the fair value of the instrument, including costs or revenues from transactions directly ascribable to the instrument itself. If the entry takes place after reclassification of the assets held for trading, the entry value is represented by the fair value at the time of transfer.

Following the initial recording, the assets available for sale continue to be assessed at fair value with the entry in the profit and loss account of the remuneration of the instrument calculated using I.R.R. methodology while the profits and losses deriving from a variation in fair value are recorded in a specific reserve of net assets until the financial asset is cancelled or a loss in value is recorded. At the time of disinvestment or recording of a loss in value, the accumulated profit or loss is transferred to the profit and loss account.

For the assessment of situations entailing a loss due to reduction in value and the determination of the related amount, the Bank on the basis of its assessment experience uses all the information available based on previously verified facts and observable data at the assessment date.

With regard to debt securities, the data considered essentially relevant for the purposes of verifying any loss due to reduction in value are as follows:

- the existence of significant financial difficulties of the issuer, confirmed by breach of contract or failure to make interest or capital payments;
- the likelihood that bankruptcy proceedings will be instigated;
- the disappearance of an active market for financial instruments;
- the deterioration of economic conditions affecting issuer cash flows;
- the declassification of the issuer credit rating, when accompanied by other negative information on the issuer's financial position.

With reference to capital securities, the information deemed relevant for purposes of pinpointing losses for reductions in value includes verification of changes which have taken place in the technological, market, economic and legal spheres in which the issuer operates. A significant or prolonged decline in fair value of an instrument representing capital below its cost is considered objective evidence of a reduction in value.

Losses due to a reduction in value in capital securities cannot determine write-backs entered in the profit and loss account in the event that the reasons for the devaluation disappear. These write-backs therefore concern the specific reserve of net assets.

The write-backs related to debt securities are recorded in the profit and loss account, up to the impairment amount recognised therein.

With regard to debt securities classified as available for sale, the recognition of related yield based on the amortisation method is recorded in the financial statements and counterbalanced in the profit and loss account in a similar way to the effects of exchange rate variations.

Exchange variations relating to capital instruments available for sale are recorded in the specific reserve of net assets.

Capital securities for which it is not possible to reliably determine a fair value in accordance with the guidelines indicated above are maintained at cost adjusted for assessment of losses due to a reduction in value.

The existence of objective evidence of a reduction in value is verified with the closing of each balance sheet or of situations during the year.

If the reasons for the loss in value are removed as a result of an event occurring after recognition of the impairment, write-backs are performed and recorded in the profit and loss account in the case of loans or debt securities, and to shareholders' equity in the case of equity securities. The total amount written back cannot in any event exceed the amortised cost which would have applied to the instrument in the absence of previous write-downs.

Financial assets are written off when contractual rights to cash flows deriving from the assets expire or when essentially all related risks/benefits are transferred along with ownership of the financial asset.

## FINANCIAL ASSETS ASSESSED AT FAIR VALUE

The portfolio of financial assets valued at fair value includes those securities for which it was decided to apply the fair value option provided for by IAS 39. Consequently they can be designated as assets at fair value with effect on the profit and loss account in the cases of:

- elimination or reduction of evaluative inconsistencies (of financial instruments correlated among themselves) for the purpose of a more reliable presentation of information on the balance sheet;
- inclusion of instruments containing incorporated derivatives which meet certain conditions in order not to break them out of the host instruments, assessing them at fair value overall;
- management of a group of financial assets, financial liabilities or both where their trend is assessed on a fair value basis in accordance with documented risk or investment strategy management and the report on the group based on the foregoing is supplied internally to managers with strategic responsibilities.

Initial entry takes place on the settlement date if settled with regular market practice timing (regular way), otherwise on the trade date. When financial assets are entered on the settlement date, profit and loss recorded between the trade date and the settlement date are entered in the profit and loss account. Financial assets assessed at fair value are entered initially at fair value which generally corresponds to what was paid. Related transaction costs or revenues are entered directly in the profit and loss account.

After initial entry, the assets are aligned at their related fair value.

The fair value of investments listed in active markets is determined by referring to market quotations (bid prices) recorded on the date of reference of the balance sheet. For the investments for which there is no quotation on an active market available, fair value is determined using estimation methods and evaluative models which take into account all the risk factors correlated to the instruments and which are based on data which, if available, can be found in the market. These techniques can consider prices recorded for similar transactions recently concluded at market conditions, the calculations of discounted cash flows, models for determining option prices and other techniques commonly used by market operators.

Profit and loss realised on transfers or repayments and the profit and loss not realised deriving from the variation in fair value compared to the purchase cost, determined on the basis of the average daily weighted cost are entered in the profit and loss account for the period in which they emerge under the item "Net result of value of financial assets and liabilities assessed at fair value" (item 110 of the profit and loss account).

Financial assets are cancelled when the right to receive cash flows from the financial assets is terminated or when all risks and benefits connected to holding that certain asset are substantially transferred.

At 31 December 2009 there are, in any case, no capital securities or stakes in UCITs assessed at fair value in the Group.

## QUANTITATIVE NOTICE

### TYPE, BALANCE SHEET VALUE, MARKET VALUE AND FAIR VALUE OF EXPOSURE OF CAPITAL INSTRUMENTS; PROFIT AND LOSS FROM TRANSFERS AND CAPITAL GAINS / CAPITAL LOSSES

| Type of exposure                             | Balance sheet value | Fair value     | Market value (listed) | Profit/tr transfer losses | Plus/(Minus)                 |                       |                               |
|--|---------------------|----------------|-----------------------|---------------------------|------------------------------|-----------------------|-------------------------------|
|  |                     |                |                       |                           | Recorded in BS and not in PL | of which basic assets | of which supplementary assets |
| <b>Equity investments</b>                    | <b>13,639</b>       | <b>13,639</b>  | <b>X</b>              | <b>(39)</b>               |                              |                       |                               |
| of which:                                    |                     |                |                       |                           |                              |                       |                               |
| - listed                                     |                     |                |                       |                           |                              |                       |                               |
| - not listed                                 | 13,639              | 13,639         | X                     | (39)                      |                              |                       |                               |
| <b>Capital securities available for sale</b> | <b>421,812</b>      | <b>421,812</b> | <b>X</b>              | <b>2,744</b>              | <b>4,640</b>                 |                       | <b>4,640</b>                  |
| of which:                                    |                     |                |                       |                           |                              |                       |                               |
| - listed                                     | 86,047              | 86,047         | 86,047                | 2,708                     | (5,048)                      |                       | (5,048)                       |
| - not listed                                 | 335,765             | 335,765        | X                     | 36                        | 9,688                        |                       | 9,688                         |
| <b>UCIT stakes available for sale</b>        | <b>191,880</b>      | <b>191,880</b> | <b>X</b>              | <b>(33)</b>               | <b>(922)</b>                 |                       | <b>(922)</b>                  |
| of which:                                    |                     |                |                       |                           |                              |                       |                               |
| - listed                                     | 123,037             | 123,037        | 123,037               | (33)                      | 3,606                        |                       | 3,606                         |
| - not listed                                 | 68,843              | 68,843         | X                     |                           | (4,528)                      |                       | (4,528)                       |
| <b>Total</b>                                 | <b>627,331</b>      | <b>627,331</b> | <b>X</b>              | <b>2,672</b>              | <b>3,718</b>                 |                       | <b>3,718</b>                  |
| of which:                                    |                     |                |                       |                           |                              |                       |                               |
| - listed                                     | 209,084             | 209,084        | 209,084               | 2,675                     | (1,442)                      |                       | (1,442)                       |
| - not listed                                 | 418,247             | 418,247        | X                     | (3)                       | 5,160                        |                       | 5,160                         |

## TABLE 14 - INTEREST RATE RISK ON POSITIONS INCLUDED IN THE BANK PORTFOLIO

### QUALITATIVE NOTICE

The Veneto Banca Group has a dynamic approach to managing interest rate risk, the objectives of which are to ensure correct risk management by:

- 1) preserving the stability of the interest margin and minimising the negative impact of changes in interest rates (current earnings approach), focusing mainly on the short term. The stability of the interest margin is mainly influenced by the Repricing Risk, Yield Curve Risk, Basis Risk and Optionality Risk;
- 2) immunising the economic value, which is the sum of the present value of future cash flows generated by both sides of the balance sheet, thereby providing a medium/long term outlook which is mainly tied to the repricing risk;
- 3) ensure that the interest risk assumed or to be assumed is correctly identified, measured, controlled and managed according to official, shared methods and procedures, while maintaining the quality of the measurement systems and management processes in lines with the best practices on the market.

Since 2003 the Bank has employed a process aimed at quantifying and managing cash flows in an integrated manner, and has used a specific Asset and Liability Management (ALM) computer programme to monitor said risks, created by Prometeia.

The methodologies applied make it possible to monitor the following types of risk:

- variations in interest margin determined by the temporal shifts in maturities and in the timing of repricing of the interest rate of the assets and liabilities of the institute. Such mismatching in the presence of market shock determines a variation in the expected interest margin that can be quantified using the Maturity Gap technique in the short term perspective of reference, or the current financial year. The yardstick for this variation is the sudden shock of  $\pm 100$  basis points on the curve;
- variations in the financial value of the Group due to the shock of market rates. To assess such impact in the long term, the techniques of Sensitivity Analysis are used. The yardstick for this variation is the sudden shock of  $\pm 100$  basis points on the curve.

The Companies of the Group currently monitored with these techniques are comprised of two commercial banks BancApulia e Carifac and the subsidiaries Claris Leasing, Veneto Ireland Financial Services, Apulia Prontoprestito e Claris Cinque.

On the other hand, the extension of the monitoring also to Banca Italo-Romena, B.C. Eximbank s.a., Veneto Banka d.d. and Veneto Banka sh.a.

Greater understanding of the dynamics underlying accounts in the portfolio and their constant monitoring led to the introduction of specific positioning policies over the year, based on forecast trends in market rates.

The Parent Company's Board of Directors has set specific limits within which the Group must operate. The Group's Risk committee is therefore in charge of periodically examining the companies' risk situations and providing the Group Finance Division with guidelines for contracting or expanding positions.

The Board of Directors has also decided upon the management policy for interest rate risk and the application of hedge accounting principles.

As regards price risk the main sources are equity securities, units of mutual funds, securities classified as financial assets available for sale and those classified as financial assets designated at fair value. This portfolio also includes securities which, before application of the international accounting standards, were classified among equity investments.

The methods of measurement and control of price risk are not limited only to changes depending on fluctuations of the market variables but intrinsically include specific factors because the internal VaR model uses the historical simulation method. The parameters and assumptions for the VaR calculation are the same as those described in the section on market risk.

The price risk is calculated as prescribed by the prudential supervisory regulations for banks issued by the Bank of Italy currently in force.

The monitoring and management of this risk are part of the operational management of market risk and to this end the Value at Risk is calculated at the end of the day at 99% confidence in a time horizon of 10 days with the historical method.

In determination of this value implicit in the construction are the price changes dependent on fluctuations of market variables (the risk factors taken into consideration), on the specific factors of the

issuers and counterparties (specific risk factors) and on the dependency existing between them ("correlation").

#### **B. Fair value hedges**

Hedging is carried out at an integrated level for the entire Group by the Parent Company's Finance Division in order to protect changes in fair value of deposits and loans caused by market movement of the interest rate curve. The following types of derivatives are employed: interest rate swaps (IRSs), cross currency swaps (CCSs), and interest rate options (IROs). Hedges performed for subsidiaries are in turn replicated on the market so that the hedge meets the valid requirements to be entered to the hedge accounting form and be considered IAS compliant at the level of the consolidated financial statements.

#### **C. Cash flow hedges**

Hedging is carried out in order to protect changes in fair value of deposits and loans caused by market movement of the interest rate curve.

This type of hedging is not normally carried out by the companies of the Group; however, the BIM Group, which has now been incorporated, had an interest rate swap derivative to hedge specific cash flows relative to lease positions of one of its subsidiaries.

### **QUANTITATIVE NOTICE**

The sensitivity of the interest margin is monitored on a monthly basis by quantifying the impact on the yearly forecasted margin of an instantaneous and parallel change of market curves of  $\pm 100$  basis points, with a twelve month horizon. According to the regulation on the Policy for rate risk this change should not exceed the -7% threshold.

The second feature, connected to the sensitivity of the economic value of shareholders' equity, is, on the contrary, monitored by using a precise mapping of future cash flows of all assets and liabilities entries, which allows the quantification of the current economic value as at the date of the analysis and of the value expected based on the new interest rate scenario (full valuation method). The above mentioned regulation on the Policy for rate risk establish that the changes in the economic value of the capital should not exceed, against a change of  $\pm 100$  basis points, 7% of the supervisory capital.

All the risk measurements calculated include also the sensitivity of short-term on demand loans to clients, the features of which, in term of re-pricing and economic value, were analysed using an econometric model developed thanks to the availability of a wide historical series.

The Group Companies currently monitored with these techniques are, in addition to the Parent Company Veneto Banca, the two commercial banks – BancApulia e Carifac – and the subsidiaries Claris Leasing, Veneto Ireland Financial Services, Claris Cinque e Apulia Prontoprestito. The assets of these companies make up altogether more than 86.8% of the assets of the Group and account for 87.7% of net income.

As regards, instead, the foreign companies Banca Italo-Romena, B.C. Eximbank d.d. (Moldova), Veneto Banka d.d. (Croatia), Veneto Banca sh.a. (Albania) e Italo Romena Leasing (Romania) the monitoring is carried out using simplified maturity gap schemes. These companies represent 4.5% the monitoring is carried out using simplified maturity gap schemes. These companies represent 3.8% of net income.

However, a specific IT project to integrate these companies also into the Prometeia system is at an advanced stage.

While waiting for the IT migration, which will take place in 2011 and which will allow for the use of the Prometeia ERMAS program, the interest rate risk of the banking book of the Co.Fi.To. Group (which represents 8.4% of the assets) is monitored simply, as follows:

- margin sensitivity: it is presumed that the group's sensitivity (of the margin according to the budget) is the same as that of Veneto Banca; sensitivity of the economic value: quantified by the Co.Fi.To. Group's risk management service using the simplified model contemplated by Bank of Italy circular 263/2006.

The companies not monitored (Claris Factor, Claren Immobiliare, Immobiliare Italo-Romena), which represent only 0,3% of the assets e lo 0,5% of the net income.

At 31 December 2010, with reference to the the sum of the said companies' portfolios, on net interest income we observe:

- for a shock of  $-100$  bp in the interest rate curve, a negative impact of 2.2% on net interest income, quantifiable, before the tax effect, as a loss of Euro 15 million;
- for a shock of  $+100$  bp in the interest rate curve, a positive impact of 2.5%, quantifiable, before the tax effect calculated at the nominal rates in force since 2009, as a gain of Euro 17.3 million.

As regards, instead, the effects on the economic value of the financial items, the analysis carried out found that in the case of a parallel decline of interest rates of 100 bp this value would increase by Euro 37.8 million, an increase of 1.3% of the regulatory capital. On the contrary, in the case of an increase of 100 bp, a reduction of Euro 27.7 million is estimated, corresponding to negative change of -0.9% of the regulatory capital.

As far as price risk is concerned at 31 December 2010 the VaR of Veneto Banca Holding at 10 days at 99% calculated with the method of the historical simulation, for the equity portfolio, amounted to a total of Euro 13,375,385.00.

#### RISK RATIOS BY SHIFT ( $\pm 100$ bp)

| SHIFT (+/-)         | Effect on future interest margin <sup>11</sup> | Effect on shareholders' equity <sup>12</sup> |
|---------------------|--|--|
| EUR +100bp          | 2.40%  | -1.00%                                       |
| USD +100bp          | -0.03%   | 0.03%  |
| Altro +100bp        | 0.13%  | 0.02%  |
| <b>Total +100bp</b> | <b>2.50%</b>                                   | <b>-0.94%</b>                                |
| EUR -100bp          | -1.98%   | 1.34%  |
| USD -100bp          | -0.06%   | -0.03%                                       |
| Altro -100bp        | -0.13%   | -0.03%                                       |
| <b>Total -100bp</b> | <b>-2.17%</b>                                  | <b>1.28%</b>                                 |

<sup>11</sup> Future interest margin" means the difference between future receivable interest on interest-bearing assets (excluding debt securities in the supervisory trading portfolio) and future interest expense on liabilities for payment calculated on the hypothesis of the development of volumes formulated by the Group.

<sup>12</sup> "Shareholders' equity" means the difference between current value of interest-bearing assets (excluding debt securities in the supervisory trading portfolio) and that of the liabilities for payment.

## **STATEMENT OF THE MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE ACCOUNTING DOCUMENTS**

The undersigned, Stefano Bertolo, in his capacity as Manager responsible for preparing the corporate documentation of Veneto Banca scpa states in accordance with article 154-bis, paragraph 2 of Legislative Decree no. 58 of 24 February 1998 that the accounting disclosures in this document correspond to the documentary results in the registers and accounting entries.

Stefano Bertolo  
Manager responsible for the preparation  
of corporate accounting documents