Half-Year Report for the Six Months Ended 30 June 2011

Banca Popolare di Cividale S.c.p.A.

Banca Popolare di Cividale S.c.p.A.
Registered office: Cividale del Friuli – Piazza Duomo 8
Taxpayer ID no. 0024936306 – Udine Companies Register no. 22
Roll of Banks no. 1331
Banca Popolare di Cividale Group
Roll of Banking Groups no. 5019.5
Share capital: €50,788,023, fully paid-up

Contents

Corporate officers and senior management of Banca Popolare di Cividale as at the date of approval of the interim financial statements

Board of Directors

Chairman	Lorenzo Pelizzo
Deputy Chairmen	Carlo Devetak Adriano Luci
Directors	Francesca Bozzi Luciano Locatelli Graziano Tilatti Sergio Tamburlini

Board of Statutory Auditors

Chairman	Giancarlo Del Zotto
Standing Auditors	Mauro De Marco Carlo del Torre
Alternates	Paola Rodighiero Maria Eugenia Cola

Board of Arbitrators

Standing Members	Mario Cicuttini Aldo Del Negro Giovanni Battista Gregoris Giampaolo Piccoli Eugenio Scarbolo
Alternates	Alessandro Rizza Ugo Gangheri

Senior management

General Manager	Luciano di Bernardo
Assistant General Manager	Gianluca Picotti

Manager responsible for preparing the financial reports	Gabriele Rosin
Independent auditors	*Reconta Ernst & Young S.p.A.*

Interim report on operations
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Highlights

BALANCE SHEET DATA (thousands of euros)	30/06/2011	31/12/2010	CHANGE %
Financial assets held for trading	31.161	46.149	-32,5%
Financial assets available for sale	596.654	267.862	122,7%
Financial assets held to maturity	180.575	304.539	-40,7%
Due from banks	421.507	585.710	-28,0%
Loans to customers	3.098.727	3.032.811	2,2%
Hedging derivatives	3.416	4.529	-24,6%
Equity investments	7.888	7.784	1,3%
Total assets	4.523.736	4.419.892	2,3%
Due to banks	1.118.145	898.118	24,5%
Due to customers	1.297.041	1.411.267	-8,1%
Debt securities issued	1.580.387	1.591.571	-0,7%
Financial liabilities held for trading	2.994	3.399	-11,8%
Hedging derivatives	2.472	10.528	-76,5%
Shareholders' equity	328.130	331.557	-1,0%
Total indirect funding	1.622.790	1.657.683	-2,1%
Assets under management	633.642	644.914	-1,7%

BALANCE SHEET RATIOS	30/06/2011	31/12/2010
Indirect funding from customers / Total funding	36,06%	35,57%
Assets under management / Indirect funding from customers	39,05%	38,90%
Direct funding from customers / Total liabilities	63,61%	67,94%
Loans to customers / Direct funding from customers	107,69%	101,00%
Loans to customers / Total assets	68,50%	68,62%

CREDIT RISK INDICATORS (thousands of euros)	30/06/2011	31/12/2010
Net non-performing loans	97.348	83.843
Other net impaired loans	146.092	142.712
Net non-performing loans / Loans to customers	3,14%	2,76%
Other net impaired loans / Loans to customers	4,71%	4,71%
Net non-performing and impaired loans / Loans to customers	7,86%	7,47%
Bad debts hedging	51,8%	51,9%
Other impairred loans hedging	12,5%	12,3%
Cost of credit *	0,79%	0,70%

Operating structure	30/06/2011	31/12/2010
No. of employees	590	581
No. of branches	69	68

INCOME STATEMENT DATA (thousands of euros)	30/06/2011	30/06/2010	VAR %
Net interest income (including result of hedging)	40.026	36.597	9,4%
Gross income	56.627	44.532	27,2%
Net financial income	41.178	33.949	21,3%
Gross operating income	9.790	5.529	77,0%
Net income for the period	**6.453**	**3.254**	**98,3%**

The first half of 2011

The macroeconomic scenario[1]

The global economy slowed in the first quarter of 2011, although expansion remained robust in emerging nations. The slowdown reflects a weakening of some of the major advanced economies. Among the latter, the decline in activity in Japan and slower growth in the United States more than offset the strengthening of the Euro Area and the resumption of growth in the United Kingdom.
Price acceleration continued, driven by rising commodity prices, particularly in emerging economies, where foodstuffs and energy goods have a higher weight in consumer shopping baskets and where the level of production capacity utilisation remains near full potential. According to the most recent indicators, economic growth continued in the second quarter at the same rate as in the previous period in the United States but slowed in the Euro Area and the United Kingdom. In Japan, following on a sharp decline in the first quarter, GDP is also believed to have fallen in the second quarter. The growth

[1] Source: Bank of Italy's *Bollettino Economico.*

rates for the principal emerging nations have shown signs of a slight decrease. Since April, international trade figures indicate that trade growth has slowed, after accelerating in the first quarter.

***Inflation* -** Inflation continued to increase in the major advanced economies throughout the spring, while remaining at moderate levels if the most volatile components are excluded. In the United States, the inflation rate rose to 3.6% in the twelve months to May from 3.2% in April. Net of the energy and food components, the rate of increase was 1.5% (1.3% in the previous month). In the United Kingdom, inflation remained at high levels (4.2% in June from 4.5% in May), continuing to be affected by the recent increase in indirect taxes. However, the base component was down to 2.7%, a point lower than in April. In Japan, following months of stability, prices resumed growth in April (0.3%) and continued at the same rate in May.

Euro Area - In the first quarter of the year, GDP expanded by 0.8% in the Euro Area compared to the previous period, following on the modest increase reported at the end of 2010. The heightened pace of growth was partly temporary in nature: it reflected a recovery of investment in construction (1.2%), which had declined in the autumn due to adverse meteorological conditions. Additionally, purchases of capital goods increased (2.6%). Household spending growth continued at a modest pace (0.2%). The boost provided by exports (1.9%) was partially absorbed by the rise in imports (1.4%). The performances of the world's major economies continued to differ considerably. In Germany, GDP grew at nearly twice the rate for the region, whereas the increase came to 0.9% in France and just above zero in Italy (0.1%).
The harmonised consumer price index for the Euro Area rose by 2.7% in June compared to twelve months earlier. The acceleration in the second quarter was a reflection of the higher costs of processed foodstuffs and services, partially offset by the slower rise of the prices of energy products.
However, the economic scenario was conditioned to a greater degree by the public debt crisis than by economic performance. After Greece and Ireland, a third country, Portugal, was forced by the excessive increase in borrowing costs to apply for financial support from the International Monetary Fund and the European Union. The fourth revision of the economic adjustment programme for Greece laid bare a widening gap with respect to targets, in addition to serious problems in meeting the nation's financing requirements beginning in 2012. Following the approval of the medium-term fiscal plan by the Greek Parliament in late June, it was only on 21 July that the Eurogroup reached an agreement for a new three-year aid programme for 109 billion (one-third of which is to be provided by the IMF), in addition to participation by private investors in the form of bond exchanges and a repurchase programme in the estimated total amount of 50 billion. The plan is associated not only with the renegotiation of borrowing conditions for countries receiving aid under current programmes (Ireland and Portugal as well as Greece), but also broader powers for the government bail-out fund known as the EFSF, including the ability to grant "preventative" lines of credit for countries not receiving aid under current programmes (in particular, to finance the recapitalisation of financial institutions) and, most importantly, to intervene on the secondary government bond market, albeit under "exceptional" market conditions and on the basis of analyses by the ECB. In early July, as political tensions increased, spreads on Italian government debt also rose rapidly. As at 30 June, yields on ten-year Italian government bonds were 192 basis points higher than for Bunds, an increase of 46 basis points compared to 31 March. The situation then deteriorated further, with the spread widening to more than 300 basis points. The increase in risk premiums also affected other peripheral issuers such as Spain, albeit to a lesser extent, and even had an impact on a highly rated nation such as France.
Despite the debt tensions, in April the ECB announced an initial increase in its official rates from 1.00% to 1.25%, signalling dissatisfaction with the negative level of real rates. In June it prepared the markets for further action, following up with a 25 basis point increase in early July. The procedure for full allocation of primary refinancing transactions was extended until October. The dependence of banks in Greece, Portugal and Ireland on the liquidity supplied by the Eurosystem remains very high in proportion to the system's assets and total liquidity supplied through open-market transactions. Euribor rate trends reflect the monetary policy reversal. The monthly rate climbed from 0.81% at the end of 2010 to 1.28% in June 2011. Increases on the order of 50 basis points were observed on the six-monthly and annual maturities. An uptrend was also seen in IRS rates on short and medium maturities, while the level of long-term rates declined in the second quarter.

Italy **-** In the first quarter of 2011, Italian GDP continued to rise at the modest pace seen at the end of 2010 (0.1% compared to the previous period). Household consumption showed moderate progress, held back by continuing uncertainty surrounding earnings prospects and employment levels that remained stationary overall in the first few months of the year. The recovery of investment in construction was almost entirely offset by the decline of investment in capital goods. In early spring, economic performance indicators signalled a slight acceleration in the growth rate. According to estimates surveyed by the Bank of Italy in its *Bollettino Economico*, on average in the second quarter industrial output increased in the order of 1.5% compared to the previous period, putting an end to the stagnant performance seen since the previous autumn. GDP growth is expected to have amounted to approximately 0.4%. The SME index and manufacturers' confidence deteriorated. The quarterly survey conducted by the Bank of Italy in collaboration with *Il Sole 24 Ore* calls for a weakening of demand in the second part of the year. In June consumer price inflation rose to 2.7% on the twelve months, driven by the higher prices of processed food stuffs and certain service components. Inflation is expected to decrease in the second half of the year. Inflation risks could be triggered by renewed pressure on the prices of energy products.

Italy - businesses **-** After weakening in late 2010 and early 2011, industrial activity showed signs of an improvement in the following months, rising by 1.1% in April compared to the previous period. Even including the further slowdown estimated to have occurred in the following two months, which takes into account the decline registered in May and the prospects for June, output increased by approximately 1.5% on average in the second quarter compared to the first. Since the beginning of the expansionary phase, the rate of growth for industrial activity in Italy has kept pace with France but fallen short of Germany. Looking forward, the strength of the recovery remains uncertain. The uptrend in the volume of new orders slowed in spring; the results of qualitative surveys of businesses deteriorated, putting an end to nearly two years of improvement. However, export firms, which remained the best performers, continued to express highly positive opinions concerning demand for their products. Assessments of conditions for investing remained cautious.
The home segment is also struggling to resume growth. Home sales, as surveyed by Italy's national property registry office, marked a decline of nearly four percentage points in the first quarter of the year compared to the same period of 2010.

Italy - households **-** Growth of household consumption was modest in the first quarter of the year (0.2% compared to the previous period). Most components of spending stagnated, with the exception of purchases of durable goods, which recovered following the decline reported in late 2010. Consumption continued to be affected by the weak disposal incomes of consumer households. However, signs of a recovery may be seen: on the basis of preliminary estimates, in the first quarter incomes increased by nearly one percentage point in real terms compared to the same period of the previous year. According to indicators, caution in spending decisions has continued in the most recent months. Retail sales remained stagnant in the spring, motor vehicle registrations rose only slightly and consumer confidence weakened, falling to levels last seen in mid-2010. Looking forward, some positive signs may be seen in the recent improvement in household expectations concerning future job market performance, and concerns regarding rising inflation are gradually subsiding. In the first quarter of 2011, household debt fell in proportion to disposable income, coming to 64.4% in March. The lower weight of both bank and non-bank medium- and long-term loans was a contributing factor. By contrast, the weight of short-term bank loans increased. The level of indebtedness remained far below the Euro Area average, which in December 2010 was 99% of disposable income. The weight of the costs incurred by Italian households to service their debt (i.e., to pay interest and principal) decreased to 10.1% from 10.4% in December. On the average, interest rates for both home purchase loans and consumer credit increased marginally over the period.

The Italian banking system

Bank lending to the non-financial private sector continued to grow at a brisk pace, averaging 5.7% for the three months on an annualised basis, net of the seasonal effect. Loans to businesses were up by 6.1%, while loans to households increased by 5.2%, driven primarily by the performance of home mortgage lending.

Net of non-performing positions and repurchase agreements, the rate of increase in the total credit provided to the economy by the top five Italian banking groups slowed to 1.4%, whereas the growth rate for the loans written by the other banks remained stable at 5.3%. The very strong performance of loans to businesses remained primarily a reflection of demand trends, arising from the need to finance inventory and working capital. In the first quarter of the year, intermediaries' lending policies were slightly more restrictive for certain specific client segments only. According to the monthly surveys of businesses conducted by ISTAT and the Bank of Italy in collaboration with *Il Sole 24 Ore*, in June a modest proportion of companies continued to report difficulty in securing access to bank credit.

Lending rates - Bank rates increased, reflecting the rise in money-market rates. Since the end of March, the average cost of short-term loans to businesses (including account credit facilities) has increased by two-tenths of a percent, climbing to 3.9% in May. The average rate for new financing rose by three-tenths of a point for small enterprises while remaining unchanged for their large counterparts. The cost of new loans to households also increased, rising by two-tenths of a point to 2.8% for floating-rate loans and one-tenth of a point to 4.8% for fixed-rate loans.

Non-performing positions - In the first quarter of 2011, the adjusted flow of new non-performing positions (i.e., the total amount of loans to customers for which a significant proportion of the related exposure had been reported as non-performing) for intermediaries operating in Italy remained high while showing signs of slowing. The increase in non-performing positions, excluding seasonal factors, amounted to 1.8% of loans on an annualised basis, down by one-tenth of a point compared to the end of 2010. The reduction was driven by loans to financial companies and loans to businesses based in southern Italy. The outlook for credit quality performance in the coming months remains uncertain. Preliminary information indicates that banks' exposure to debtors reported as in default for the first time decreased in April compared to the same period of 2010. However, loans to distressed businesses (substandard and restructured exposures) remained high at 5.9% of total loans.

Funding - Italian bank funding underwent a significant acceleration, expanding by 1.8% over the twelve months ending in Many, despite the slight decrease registered by the top five groups (-0.7%). The increase reflected the trend in bond issuance and deposits held by non-residents, the latter of which increased in connection with the resumption of interbank transactions. By contrast, current accounts declined sharply, especially in the financials segment. For households, the decline was modest (-0.4%) and entirely offset by the rise in other deposits. The adjustment of borrowing rates to the new monetary conditions was moderate. Compared to March, the interest rate on household deposits increased by one-tenth of a percent for current accounts and time deposits for up to two years (rising to 0.5% and 1.7%, respectively). In contrast, the yield on newly issued floating-rate bank bonds remained essentially stable at 3.1%.

Profitability - According to the consolidated reports published by the country's five largest groups, bank profitability increased slightly compared to one year prior in the first quarter of 2011. Net income was up 18% and the return on capital and reserves, expressed on an annual basis, climbed from 3.0% to 3.4%. The improvement may be attributed to an increase in operating profit (3.0%) and a decrease in provisions and impairment losses on loans (-12.0%). Operating profit benefited from the decrease in operating costs (-2.0%), while operating revenues remained stable: the increase in other revenues, especially trading revenues, was offset by the decline in net interest income. In the first quarter of 2011, the capital ratios of the five largest groups rose on average owing both to recapitalisation and a decrease in risk-weighted assets. At the end of March, the core tier 1 ratio averaged 7.8% (7.4% at the end of 2010), while the tier 1 ratio and total capital ratio stood at 9.4% and 12.9%, respectively (9.0% and 12.6% at the end of the previous year).

Capital markets

In the second quarter of the year, the general Italian stock market index fell by 7%, compared to a 2% decrease in the index for the Euro Area's major listed companies. Following the slight recovery witnessed in April, owing in part to the strong earnings performance announced by firms, equity prices began to fall once more in early May. Contributing factors included the intensification of concerns of a restructuring of Greek debt and the uncertainty driven by the rise in commodities prices and the slowdown of the economic recovery in the United States. In the first 13 days of July, indices for Italy

and the Euro Area decreased by 5% and 4%, respectively. In comparison to Europe, the Italian index was affected by the high weight and severe decline of the banking segment (-14% in the second quarter and -11% in the first 13 days of July), which is particularly exposed to turbulence on Euro Area government bond markets. On 23 June Moody's placed the ratings of 16 Italian banks under observation for possible downgrades. Bank share prices temporarily declined to then rise late in the month as the budget act was approved by the Greek Parliament. Bank stocks then declined severely in July following the downgrade of Portuguese government bonds to high-risk and tensions surrounding Italian government bonds. The decrease in share prices since May has also had a profound affect on telecommunications, industry and services. In contrast, consumer goods (including automobiles) and electricity outperformed the general index. The ratio of current earnings to capitalisation increased by approximately one percentage point in the second quarter of 2011, remaining above the long-term average. The expected volatility of equity prices decreased slightly in the average for the quarter, despite showing a considerable increase in the second half of June due to the intensification of market tensions surrounding Euro Area government bonds. Three initial public offerings were launched in the second quarter. At the end of June, the Italian stock market index included 292 Italian firms with a total capitalisation of 432 billion (approximately 27% of GDP). In the first quarter of 2011, Italian firms were collectively responsible for the issuance of a net total of approximately €15 billion in bonds. In Italy, as in the Euro Area, banks returned to a situation of net placement, while for other financial firms the value of securities reaching maturity exceeded the value of new securities issued. Non-financial firms reported a severe decline in net placements, which stood at modest levels.
In the second quarter, spreads on the yields of bonds issued by highly rated non-financial firms and government bonds in the Euro Area increased by six basis points for both businesses based in Italy and those in the region's other major nations (Germany, France and Spain). Premiums on credit default swaps (CDSs) for Italian banks increased by 32 basis points, remaining slightly below Moody's average values for Italian banks. In the first 13 days of July, bond spreads for Italian non-financial firms increased by 25 basis points (five basis points for companies from the region's other major nations). Premiums on CDSs for Italian banks underwent a more marked increase (74 basis points compared to 29 for the banks of the region's other major nations). The increase reflected the intensification of tension surrounding Italian government bonds. In the first quarter of 2011, open-ended mutual funds in Italy reported net redemptions of 3.1 billion (2.3 billion in the previous quarter). Funds based in Italy reported lesser net outflows (from 9.5 to 8.6 billion), while net inflows to non-Italian funds decreased (from 7.1 to 5.5 billion). Net redemptions of harmonised Italian funds were spread across all segments, with especially high levels for bond and money-market funds (3.8 and 1.9 billion, respectively). At the end of the first quarter, the assets under management by open-ended mutual funds in Italy came to 458 billion, down slightly compared to the previous period (463 billion). On the whole, harmonised Italian funds reported an average return of zero for the quarter: the negative returns registered by equity and balanced funds (-0.5% for both) were offset by the positive returns yielded by money-market and bond funds (0.7% and 0.2%, respectively).

The Banca Popolare di Cividale Group in the first six months of the year

The operating context in the first half of 2011 reflected the difficult end to the recession, with a slowdown in global economic activity in the second quarter. The slowdown also affected the Eurozone, where tighter fiscal policies and deteriorating financial conditions penalised peripheral nations. In Italy, growth remained modest, below the Eurozone average. The capital market volatility that characterised the entire first half of the year intensified in the second quarter due to the public debt crisis in several European nations. Within this scenario, in the first six months of 2011 the Banca Popolare di Cividale Group reported a net income of €6,454 thousand, with an increase of 98.3% from €3,254 thousand in the same period of the previous year. This performance was affected by the presence of revenue on transactions of a non-recurring nature or amount. In particular, during the half-year Banca Popolare di Cividale sold all of its ordinary shares of Banca dell’Artigianato e dell’Industria, representing a 10% interest in the firm, to Credito Valtellinese for an amount equal to €16.7 million, yielding a capital gain of €3.8 million. In the absence of that extraordinary component, the net income for the period would be €2,845 thousand.

Turning to the individual aggregates, the income statement for the first six months of the year shows net interest income of € 40,026 thousand, up by 9.4% compared to the same period of the previous year.
The service segment generated net commissions of €10,867 thousand, up from the first half of 2010 (5.4%). The change is primarily to be ascribed to intermediation and management of financial products and fees associated with electronic payment systems. The components associated with the other segments showed an increase in current account fees and commissions, which were up by 10% compared to the same period of the previous year. Fees and commissions on credit facilities declined.
The net loss on trading came to €27 thousand, compared to a net loss in the same period of the previous year.
Sales and purchases of financial assets held for trading yielded net gains due to the capital gain realised on the sale of the shares of Banca dell'Artigianato e dell'Industria and the early unwinding of investments in BTP inflation-linked structured securities.
Operating costs remained under constant scrutiny, coming to €33,525 thousand, up by 6.5% compared to the first half of the previous year. In particular, personnel expenses increased by 7.6%, owing in part to the Group's geographical expansion and provisions recognised to account for the adjustment required by the contractual renewal. Administrative expenses increased moderately (+5.8%), in line with the projections set out in the business plan, while net impairment on property, equipment and intangible assets decreased.
As a consequence of the factors outlined above, operating income stood at €25,256 thousand, up by 61.0% compared to the first half of 2010.
Impairment of assets and provisions for risks (€15,468 thousand) showed an overall increase of €5,313 thousand compared to the same period of the previous year. In particular, there were increases in both the need for adjustments due to credit risk (+35.5% to €3,810 thousand) and net impairment of other assets, which came to a €915 thousand, affected by the impairment of Greek government bonds held by the subsidiary Banca di Cividale S.p.A.
Income before tax from continuing operations therefore stood at €9,789 thousand, up by 77% compared to the first half of 2010.
Taxes on income for the period stood at €3,699 thousand. The effective tax rate, net of non-recurring components, was up compared to the same period of the previous year, due in part to the impact of the change in the IRAP tax rate recently enacted as part of urgent financial stabilisation measures, estimated to amount to €340 thousand on a half-yearly basis.
The net income for the period was €6,451 thousand, up by 98% compared to the first half of 2010.
Balance sheet aggregates showed a modest rise in loans to customers (+2.2%) owing in part to the challenging economic scenario.
Direct funding (€2,877 million) was down compared to December 2010. Indirect funding stood at €1,623 million, down by 2.1% compared to 31 December 2010.
With respect to capital solidity, regulatory ratios stood at adequate levels, with a core tier 1 ratio of 12.2% as at 30 June 2011.

Significant events

Significant events from the end of the first half of 2011 until the date of approval of this Report include:

- the closing of the transaction that resulted the acquisition of a 5% interest in Istituto Centrale delle Banche Popolari for a total investment of €33.7 million;
- the reaching of an agreement with Credito Valtellinese aimed at partially modifying the strategic collaboration agreements entered into in May 2004, owing in part to the extraordinary reorganisation transactions undertaken by the Creval Group. By virtue of the agreements reached, Banca Popolare di Cividale sold Credito Valtellinese the entirety of its ordinary shares of Banca dell'Artigianato e dell'Industria, representing a 10% interest, for €16.7 million, while Credito Valtellinese sold Banca Popolare di Cividale a 5% interest in Banca di Cividale S.p.A. for the total amount of €20.4 million. Due to the foregoing transaction, the interest held by Banca Popolare di Cividale in Banca di Cividale S.p.A. now amounts to 80%;

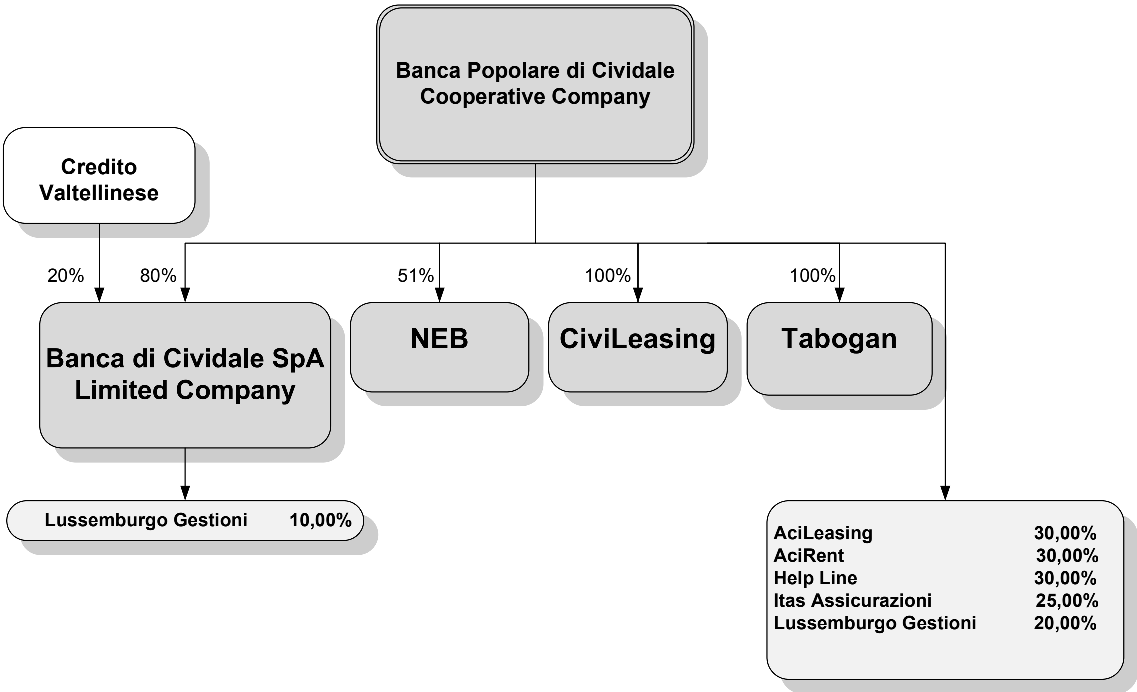
- a revision of the Group's organisational structure, resulting in the concentration with the Parent Company of the treasury and finance service and the transfer from the Parent Company to the Bank of mortgage lending to individuals, which until 2010 had also been handled by Banca Popolare di Cividale;
- the completion of the issuance of new shares for a total of €7,195 thousand; and
- the arrival of a new general manager for the subsidiary Banca di Cividale S.p.A.

Organisational structure

According to its Bylaws, the Banca Popolare di Cividale Group's mission is to expand banking activity at a regional level and in neighbouring regions and nations while ensuring even development.

The Banca Popolare di Cividale Group has adopted an organisational structure based on operational and organisational efficiency.
As at the date of this Report, the new organisational structure was as follows:

Organisational structure



Human resources

As at 30 June 2011, the human resources of the companies belonging to the Banca Popolare di Cividale S.c.p.A. Group numbered 590 compared to 581 as at December 2010, marking an increase of 9 units.

During the year, 21 employees were hired and 12 left the Group. The sales network (branches) employs a staff of 418, representing 70.8% of the total workforce.

Transactions with related parties

Procedural aspects

By resolution 17221 of 12 March 2010, exercising the authority delegated to it under Art. 2391-*bis* of the Italian Civil Code, Consob issued *Regulations for Transactions with Related Parties*, which sets out the general principles to be observed by companies that obtain funding from the risk-capital market when setting rules aimed at ensuring the transparency and substantive and procedural propriety of transactions with related parties. In accordance with the *Regulations* cited above, on 27 October 2010 the Parent Company adopted *Procedures for Transactions with Regulated Parties*. The

document is available in its entirety from the bank's website, http://www.civibank.it, in accordance with applicable legislation. The *Procedures for Transactions with Related Parties* define in detail the procedural and informational obligations that the Bank is required to discharge in managing transactions with related parties.
The *Regulations*, which have been fully applied since 1 January 2011, sets for the entire Group the criteria for identifying related parties, rules for evaluating and authorising transactions and principles governing subsequent disclosure to internal boards and the market.
In accordance with the criteria set by the supervisory authority, as required by the new *Regulations*, related parties of the Banca Popolare di Cividale Group are considered to include subsidiaries and associates, joint ventures, supplementary pension funds established for employees of the Company or any other related entity, key management personnel of the Company or its parent, such as persons directly or indirectly responsible for planning, managing and controlling the Company's operations and the close family members of key management personnel and the Company's material investees.
In further detail, the following were designated key management personnel:

- the members of the Company's Board of Directors;
- the (standing) members of the Company's Board of Statutory Auditors; and
- the members of the Company's senior management.

The *Regulations* specify the various preliminary precautionary measures to be observed by units of the Parent Company and subsidiaries before undertaking transactions with related parties of the Group with the aim of complying with the requirement for the substantive propriety of transactions, including a detailed review of justification, interest and effects in terms of earnings and financial position and the conditions of the transaction. The procedure outlined in the new *Regulations* sets out different authorisation processes for:

- major transactions, defined as transactions in which one of the "quantitative ratios" identified in Appendix 3 to the Consob *Regulations* exceed the threshold of 5%;
- minor transactions, defined as transactions other than major significant transactions and insignificant transactions; and
- insignificant transactions, the value of which does not exceed €250,000 or 0.01% of regulatory capital.

Approval of all transactions - other than insignificant or exempt transactions - undertaken by the Parent Company with a related party falls to the Board of Directors. The *Regulations* specify that transactions undertaken by subsidiaries with related parties of the Banca Popolare di Cividale Group must be authorised by the board of directors of the entity concerned after being approved by the Parent Company. Each entity may also include in its internal authorisation process specific internal control measures that may affect transactions with its own related parties.
Finally, it should be noted that if a related party is considered a significant entity in accordance with Art. 136 of the Consolidated Banking Act, the special authorisation procedure established by banking law applies, rendering the transaction conditional on prior unanimous approval of the board of directors (with the directors in attendance) and the favourable vote of all members of the board of statutory auditors. Pursuant to Art. 136, persons who serve in administration, management and control positions at a bank or member of a banking group may not contract obligations, directly or indirectly, towards their employer or undertake financing transactions with another company or bank within the banking group without authorisation from the board of directors and board of statutory auditors of the contracting entity or bank. Additionally, in such cases the obligation or transaction must meet with the Parent Company's consent.
In implementation of Law 262/2005 and Legislative Decree 303/2006, the special authorisation procedure also applies in the case of obligations contracted by the bank or other member of a banking group towards entities controlled by officers or entities within which officers serve in administrative, management or control capacities, as well as the subsidiaries and parents of such entities (unless the obligations are between entities within the same banking group or constitute transactions on the interbank market).
The foregoing is without prejudice to the obligations imposed by the Italian Civil Code in regards to directors' interests. Specifically, Art. 2391 of the Italian Civil Code requires a director to give notice of each interest held, on his own behalf or on behalf of third parties, that may be relevant to discharging the duties of his office in connection with a given transaction. In accordance with the provision cited

above, the Board of Directors is responsible for authorising transactions, including transactions with related parties, in which a director holds an interest on his own behalf or on behalf of a third party and thus complies with the requirement to abstain from undertaking the transaction, instead charging the relevant collegial body therewith pursuant to Art. 2391 of the Italian Civil Code.

Information on transactions with related parties

Major transactions

With the exception of the foregoing, since the end of the period there have been no other material events of a sort that would have a significant effect on either the earnings and financial position of the Company or the various entities within the scope of consolidation or on the representation thereof.
In the first half of 2011 the Group did not undertake any transactions eligible for classification in the "major transactions" category not within the ordinary course of business or not governed by arm's length or standard conditions that in accordance with the Group's rules for the management of transactions with related parties of the Banca Popolare di Cividale Group would have resulted in an obligation to publish a market disclosure document.

Transactions of an ordinary or recurring nature
The transactions of an ordinary or recurring nature undertaken in the first half of 2011 with related parties are part of the Group's ordinary operations and are normally governed by market conditions and meet the requirement of mutual economic expedience in accordance with the internal procedures cited above.
In keeping with the above arrangement, dealings with Group companies consist primarily of consideration for services rendered, deposits and financing in the course of ordinary interbank operations, as regards the banking firms. The other contractual dealings with specialised finance companies and the Group's service providers involve assistance and advisory services and specialised services in support of current operations.
The scope of the related parties considered for the purposes of the tables in this section has been adjusted to comply with the new version of IAS 24 and thus includes, effective 1 January 2011, the subsidiaries of the associates and joint ventures of the Banca Popolare di Cividale Group.

Information on the compensation of directors and management
The following table presents the compensation of directors, executives and other key management personnel. The compensation paid to directors and statutory auditors is set by specific resolutions of the shareholders' meeting.

	Monetary remuneration	Non-monetary benefits	Bonuses and other incentives	Other remuneration	Share-based payments
Board of Directors	455	3	-	-	-
Top management	715	34	-	38	-
Other managers	256	13	-	12	-
Total	**1.426**	**50**	**-**	**50**	**-**

During the year, remuneration totalling €132 thousand accrued to members of the Board of Statutory Auditors.

Dealings with Group companies and other related parties
The effects of transactions with related parties as defined above on the balance sheet are presented in the following summary tables. The effects of transactions undertaken with subsidiaries are not reported as the process of line-by-line consolidation involves the elimination of intragroup balances and transactions.

Outlook for the entire year

The macroeconomic scenario is subject to a high level of uncertainty. The principal risks are associated with the foreseeable slowdown of the international recovery and the development of the European sovereign debt crisis. In recent weeks, tensions have intensified and spread, creating conditions of extreme volatility on capital markets and also affecting Italy, where growth prospects remain fragile.

Within this scenario, the Board of Directors have taken a conservative view of the Group's performance in the remainder of the year and expect that results will be essentially in line with those reported in the first six months.

Condensed consolidated half-yearly financial report
Financial statements

Balance sheet
(figures in thousands of euro)

Balance sheet - Assets			30/06/2011		31/12/2010
10	Cash and cash equivalents		21.500		17.552
20	Financial assets held for trading		31.161		46.149
30	Financial assets measured at fair value		-		-
40	Financial assets available for sale		596.654		267.862
50	Invetments held to maturity		180.575		304.539
60	Due from banks		421.507		585.710
70	Loans to customers		3.098.727		3.032.811
80	Hedging derivatives		3.416		4.529
90	Change in fair value of assets in macro fair value hedge portfolios		-		-
100	Investments in associates and companies subject to joint		7.888		7.784
110	Reinsurers' share of technical reserves		-		-
120	Property and equipment		62.699		57.530
130	Intangible assets		19.310		19.345
	of w hich:				
	- goodw ill	19.136		19.136	
140	Tax assets		32.455		40.834
	a) current	8.215		18.203	
	b) deferred	24.240		22.631	
150	Non-current assets held for sale and discontinued operations		-		-
160	Other assets		47.844		35.247
	Total assets		**4.523.736**		**4.419.892**

Balance sheet - Liabilities and shareholders' equity			30/06/2011		31/12/2010
10	Due to banks		1.118.145		898.118
20	Due to customers		1.297.041		1.411.267
30	Debt securities issued		1.580.387		1.591.571
40	Financial liabilities held for trading		2.994		3.399
50	Financial liabilities measured at fair value		-		-
60	Hedging derivatives		2.472		10.528
70	Changhe in fair value of assets in macro fair value hedge portfolios		-		-
80	Tax liabilities		8.189		13.288
	a) current	4.794		10.136	
	b) deferred	3.395		3.152	
90	Liabilities associated w ith discontinued operations		-		-
100	Other liabilities		116.749		75.812
110	Employee termination benefits		5.701		5.781
120	Provisions for risk and charges:		745		2.349
	a) post-employment and similar obligations	-		-	
	b) other provisions	745		2.349	
130	Technical reserves		-		-
140	Valuation reserves		11.285		11.795
150	Redeemable shares		-		-
160	Equity instruments		-		-
170	Reserves		63.074		71.523
180	Share premiums		196.529		190.220
190	Share capital		50.788		49.902
200	Treasury shares (-)		-		-
210	Minority interest (+/-)		63.184		76.222
220	Net income (loss) for the period (+/-)		6.453		8.117
	Total liabilities and shareholders' equity		**4.523.736**		**4.419.892**

Income statement

Consolidated income statement			30/06/2011		30/06/2010
10	Interest income and similar revenues		75.694		62.119
20	Interest expense and similar charges		(36.188)		(24.388)
30	**Net interest income**		**39.506**		**37.731**
40	Commission income		12.250		11.027
50	Commission expense		(1.384)		(721)
60	**Net commission income**		**10.866**		**10.305**
70	Dividends and similar income		810		444
80	Net trading income		27		(3.106)
90	Fair value adjustments in hedge accounting		520		(1.133)
100	Profit (loss) on disposal or repurchase of:		4.898		290
	a) loans	41		170	
	b) financial assets available for sale	4.826		55	
	c) financial assets held to maturity	-		-	
	d) financial liabilities	31		66	
120	**Total income**		**56.627**		**44.532**
130	Charges/write-backs on impairment of:		(15.449)		(10.583)
	a) loans	(14.534)		(10.724)	
	b) financial assets available for sale	(873)		-	
	c) financial assets held to maturity	-		-	
	d) other financial transactions	(42)		140	
140	**Net Financial income**		**41.178**		**33.949**
170	**Net income from financial and insurance operations**		**41.178**		**33.949**
180	G&A expenses:		(37.349)		(32.933)
	a) personnel expenses	(20.676)		(19.213)	
	b) other administrative expenses	(16.673)		(13.721)	
190	Net provisions for risks and charges		(19)		429
200	Net impairment/write-backs on property, plant and equipment		(659)		(713)
210	Net impairment/write-backs on intangible assets		(128)		(163)
220	Other operating income (expenses)		6.662		4.863
230	**Operating cost**		**(31.493)**		**(28.517)**
240	Profit (loss) on equity investments		105		98
280	**Income (loss) before tax from continuing operations**		**9.790**		**5.529**
290	Tax on income from continuing operations		(3.698)		(2.674)
300	**Income (loss) after tax from continuing operations**		**6.092**		**2.855**
320	**Net income for the period**		**6.092**		**2.855**
330	Minority interest		361		399
340	**Net income for the period attributable to the Parent company**		**6.453**		**3.254**

Statement of comprehensive income

		30/06/2011	30/06/2010
10	**NET INCOME (LOSS)**	**6.092**	**2.855**
	Other comprehensive income (net of tax)		
20	Financial assets available for sale	(823)	87
30	Property and equipment	-	-
40	Intangible assets	-	-
50	Hedges of foreign investments:	-	-
60	Cash flow hedges:	-	-
70	Foreign exchange differences:	-	-
80	Non current assets held for sale:	-	-
90	Actuarial gains (losses) on defined benefit plans	-	-
100	Share of valuation reserves connected with investments carried at equity:		-
110	**Total other comprehensive income**	**(823)**	**87**
120	**TOTAL COMPREHENSIVE INCOME**	**5.269**	**2.942**
130	**Total consolidated comprehensive income pertaining to minority interests**	**(104)**	**(377)**
140	**Total consolidated comprehensive income pertaining to the Parent Compan**	**5.373**	**3.319**

Statement of changes in shareholders' equity

2011	Balance at 01/01/2011		Allocation of result for previous period			Changes during the year												Shareholders' equity at 30/06/2011	
			Reserves			Changes in reserves		Equity operations								Total comprehensive income for the period			
								New share issues		Purchase of treasury stock		Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options				
	Group	Minority interests	Group	Minority interests	Dividends and other uses	Group	Minority interests	Group	Minority interests	Group	Minority interests					Group	Minority interests	Group	Minority interests
Share capital	**46.452**	**32.554**	-	-	-	-	-	**886**	-	-	**(3.165)**	-	-	-	-	-	-	**50.788**	**29.389**
a) ordinary shares	49.902	32.554	-	-	-	-	-	886	-	-	(3.165)	-	-	-	-	-	-	50.788	29.389
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**190.220**	**37.359**						**6.309**	-		**(7.352)**							**196.529**	**30.007**
Reserves	**71.523**	**3.850**	**208**	**(733)**	-	**(8.722)**	**(753)**	**64**			**(766)**							**63.074**	**1.598**
a) income	35.368	3.850	(176)	(733)	-	571	353	64	-	-	(766)	-	-	-	-	-	-	34.686	1.998
b) other	36.155	-	384			(8.151)	(400)	-	-	-	-	-	-	-	-	-	-	28.388	400
Valuation reserves:	**11.795**	**2.866**	-	-	-	**571**	**353**	-	-	-	**(925)**	-	-	-	-	**(1.080)**	**257**	**11.286**	**2.551**
a) available for sale	(397)	(110)	-	-	-	571	-	-	-	-	22	-	-	-	-	(1.080)	257	(906)	169
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) other (*)	12.192	2.976	-	-	-	-	353	-	-	-	(947)	-	-	-	-	-	-	12.192	2.382
Equity instruments	-	-																-	-
Treasury shares																			
a) of Parent Company	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) for the pe	**8.117**	**(407)**	**25**	-	**(7.735)**	-	-	-	-	-	-	-	-	-	-	**6.453**	**(361)**	**6.453**	**(361)**
Shareholders' equity	**331.557**	**76.222**	**233**	**(733)**	**(7.735)**	**(8.151)**	**(400)**	**7.259**	-	-	**(12.208)**	-	-	-	-	**5.373**	**(104)**	**328.131**	**63.184**

2010	Balance at 01/01/2010		Allocation of result for previous period			Changes during the year												Shareholders' equity at 31/12/2010	
			Reserves			Changes in reserves		Equity operations								Total comprehensive			
								New share issues		Purchase of		Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options				
	Group	Minority interests	Group	Minority interests	Dividends and other uses	Group	Minority interests	Group	Minority interests	Group	Minority interests					Group	Minority interests	Group	Minority interests
Share capital	**46.452**	**32.554**	-	-	-	-	-	**3.450**	-	-	-	-	-	-	-	-	-	**49.902**	**32.554**
a) ordinary shares	46.452	32.554	-	-	-	-	-	3.450	-	-	-	-	-	-	-	-	-	49.902	32.554
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**166.204**	**37.359**						**24.016**	-									**190.220**	**37.359**
Reserves	**73.139**	**4.990**	**(2.686)**	-	-	**736**	**(1.140)**	**333**										**71.523**	**3.850**
a) income	36.984	3.183	(2.686)	-	-	736	667	333	-	-	-	-	-	-	-	-	-	35.368	3.850
b) other	36.155	1.807				-	(1.807)	-	-	-	-	-	-	-	-	-	-	36.155	-
Valuation reserves:	**13.827**	**3.519**				-	-									**(2.031)**	**(653)**	**11.795**	**2.866**
a) available for sale	1.635	543	-	-	-	-	-	-	-	-	-	-	-	-	-	(2.031)	(653)	(397)	(110)
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) other (*)	12.192	2.976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.192	2.976
Equity instruments	-	-																-	-
Treasury shares																			
a) of Parent Company	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) for the pe	**5.119**	**(638)**	**2.686**	-	**(7.168)**	-	-	-	-	-	-	-	-	-	-	**8.117**	**(407)**	**8.117**	**(407)**
Shareholders' equity	**304.741**	**77.784**	-	-	**(7.168)**	**736**	**(1.140)**	**27.799**	-	-	-	-	-	-	-	**6.086**	**(1.060)**	**331.557**	**76.222**

2010	Balance at 01/01/2010		Allocation of result for previous period			Changes during the year												Shareholders' equity at 30/06/2010	
			Reserves			Changes in reserves		Equity operations								Total comprehensive			
								New share issues		Purchase of treasury		Extraordinary dividend distribution	Change in equity instruments	Derivatives on own shares	Stock options				
	Group	Minority interests	Group	Minority interests	Dividends and other uses	Group	Minority interests	Group	Minority interests	Group	Minority interests					Group	Minority interests	Group	Minority interests
Share capital	**46.452**	**32.554**	-	-	-	-	-	**3.450**	-	-	-	-	-	-	-	-	-	**49.902**	**32.554**
a) ordinary shares	46.452	32.554	-	-	-	-	-	3.450	-	-	-	-	-	-	-	-	-	49.902	32.554
b) other shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share premium reserve	**166.204**	**37.359**						**24.016**	-									**190.220**	**37.359**
Reserves	**73.139**	**3.183**	**(1.911)**	-	**24**	-	**717**	**333**										**71.585**	**3.900**
a) income	36.984	3.183	(1.911)	-	24	-	717	333	-	-	-	-	-	-	-	-	-	35.430	3.900
b) other	36.155	-				-		-	-	-	-	-	-	-	-	-	-	36.155	-
Valuation reserves:	**13.826**	**3.519**				-	-									**65**	**22**	**13.891**	**3.540**
a) available for sale	1.635	543	-	-	-	-	-	-	-	-	-	-	-	-	-	65	22	1.701	564
b) cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
c) other (*)	12.190	2.976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12.190	2.976
Equity instruments	-	-																-	-
Treasury shares																			
a) of Parent Company	-	-	-	-	-	-	-	-	-	(4.279)	-	-	-	-	-	-	-	(4.279)	-
b) of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) for the pe	**5.300**	**(465)**	**(5.300)**	**465**		-	-	-	-	-	-	-	-	-	-	**3.254**	**(399)**	**3.254**	**(399)**
Shareholders' equity	**304.922**	**76.151**	**(7.211)**	**465**	**24**	-	**717**	**27.799**	-	**(4.279)**	-	-	-	-	-	**3.319**	**(377)**	**324.574**	**76.954**

Cash flow statement

CONSOLIIDATED STATEMENT OF CASH FLOW				
OPERATING ACTIVITY	**30/06/2011**		**30/06/2010**	
1. Operations		**52.603**		**35.738**
- interest income received (+)	91.597		75.560	
- interest expense paid (-)	(26.968)		(16.161)	
- dividends and similar revenues	810		444	
- net commissions (+/-)	4.633		10.305	
- staff costs	(17.038)		(16.346)	
- other expenses (-)	(13.314)		(19.409)	
- other revenues (+)	12.598		4.020	
- taxes and duties (-)	285		(2.674)	
2. Liquidity generated/absorbed by financial assets: (+/-)		**(242.188)**		**(77.409)**
- financial assets held for trading	18.680		(62.922)	
- financial assets recognised at fair value	-		-	
- financial assets available for sale	(329.341)		(3.856)	
- loans to custumers	(97.713)		(57.871)	
- due from banks: repayable on demand	188.911		68.783	
- due from banks: other	(20.146)			
- other assets	(2.578)		(21.544)	
3. Liquidity generated/absorbed by financial liabilities: (+/-)		**89.325**		**21.069**
- due to banks: repayable on demand	(165.523)		(129.821)	
- due to banks: other	371.616			
- due to customers	(121.507)		(10.296)	
- securities issued	(11.318)		142.936	
- financial liabilities held for trading	(405)		3.556	
- financial liabilities recognized at fair value	-		-	
- other liabilities	16.461		14.694	
Net liquidity generated/absorbed by operating activity A (+/-)		**(100.260)**		**(20.602)**
INVESTING ACTIVITY				
1. Liquidity generated by: (+)		**123.964**		**3.172**
- disposal of equity investments	-		-	
- dividends received on equity investments	-		-	
- disposal of financial assets held to maturity	123.964		3.172	
- disposal of property, plant and equipment	-		-	
- disposal of intangible assets	-		-	
- disposal of subsidiaries and business units	-		-	
2. Liquidity absorbed by: (-)		**(5.933)**		**(1.938)**
- purchase of equity investments	(105)		(4.279)	
- purchase of financial assets held to maturity	-		-	
- purchase of property, plant and equipment	(5.828)		484	
- purchase of intangible assets	(0)		1.857	
- purchase of subsidiaries and business units	-		-	
Net liquidity generated/absorbed by investing activity B (+/-)		**118.031**		**1.234**
FUNDING ACTIVITY				
- issue/purchase of own shares	(6.089)		28.248	
- issue/purchase of capital instruments	-		-	
- distribution of dividends and other uses	(7.735)		(7.168)	
Net liquidity generated/absorbed by funding activity C (+/-)		**(13.824)**		**21.081**
NET LIQUIDITY GENERATED/ABSORBED DURING THE PERIOD D = A +/- B +/- C		**3.947**		**1.713**

RECONCILIATION		
Cash and cash equivalents at the start of the period E	17.552	16.811
Total net liquidity generated/absorbed during the period D	3.947	1.713
Cash and cash equivalents: effect of exchange rate changes F	0	0
Cash and cash equivalents at the end of the period G = E +/-D+/-F	**21.500**	**18.524**

The cash flow statement presented in the consolidated half-yearly report for the first six months of 2010 did not distinguish between loans to banks and due to banks on demand and other accounts payable/receivable.

Notes

Accounting policies

Statement of compliance with international accounting standards

The condensed consolidated half-yearly financial statements for the six months ended 30 June 2011 have been prepared in accordance with Art. 154-*ter* of Legislative Decree 58 of 24 February 1998 and in application of the IASs/IFRSs issued by the International Accounting Standards Board and the associated Interpretations of the International Financial Reporting Interpretations Committee and endorsed by the European Commission. In particular, the financial statements have been prepared in condensed form in accordance with IAS 34. Accordingly, the financial statements do not include all of the information required in the annual financial statements and should thus be read together with the financial statements for the year ended 31 December 2010.

The accounting policies adopted in preparing the financial statements are consistent with those adopted for the financial statements for the year ended 31 December 2010.

In 2010 and the first half of 2011, the European Commission published the following Regulations endorsing the following Standards, to be applied effective 2011:

- Regulation (EU) No 574/2010 - Amendments to IFRS 1 and IFRS 7;
- Regulation (EU) No 632/2010 – IAS 24: *Related Party Disclosures*;
- Regulation (EU) No 633/2010 – IFRIC 14: *The Limit on a Defined Benefit Asset*;
- Regulation (EU) No 662/2010 – IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*; and
- Regulation (EU) No 149/2011 – Improvements to IASs/IFRSs.

In particular, in Regulation No 632 the European Commission endorsed the updated version of IAS 24 *Related Party Disclosures*. The text of the new Standard amends the definition of "related party" and lists the cases in which a person/entity may be considered a "related party" by the entity preparing the financial statements. The new version of the Standard - in effect since 1 January 2011 - specifies that the subsidiaries of associates are also to be considered related parties.

The other European Union Regulations endorsing international accounting standards enacted during the period concerned did not affect the preparation of the condensed consolidated half-yearly financial statements.

General basis of preparation of the interim report on operations

The condensed financial statements comprise the following documents, presented in thousands of euro: the balance sheet, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flow statement and notes. The notes have been presented in thousands of euro for certain items of the financial statements.

The preparation of the condensed financial statements requires the use of estimates and assumptions in determining certain components of income and expense and measuring assets and liabilities. The reader is also referred to the 2010 financial statements for information on such estimates and assumptions. It should be noted that certain valuation processes, and in particular the most complex, such as determining impairment losses, are generally conducted in complete form when preparing the annual financial report, when all required information is available, unless there are significant indicators of impairment that require immediate assessment of possible losses.

The condensed consolidated half-yearly financial statements for the six months ended 30 June 2011 are accompanied by certification by the manager responsible for preparing the financial reports in accordance with Art. 154-*bis* of the Consolidated Finance Act.

The condensed consolidated half-yearly financial statements have been subject to a limited audit by Reconta Ernst & Young S.p.A. under the contract awarded to the latter for the period 2010-2018.

Scope of consolidation and consolidation methods

The condensed consolidated half-yearly financial statements of Banca Popolare di Cividale S.c.p.A. include:

- the financial statements of Banca Popolare di Cividale S.c.p.A., Banca di Cividale S.p.A, Civileasing S.p.A., NordEst Banca S.p.A. and Tabogan S.r.l., consolidated on a line-by-line basis; and

- the financial statements of Acileasing Friuli Venezia Giulia S.p.A., Acirent S.r.l., Lussemburgo Gestioni S.A. Itas S.p.A. and Help Line S.p.A., consolidated according to the equity method.

The scope of consolidation and consolidation methods remain unchanged compared to those adopted in preparing the Group's annual consolidated financial statements for the year ended 31 December 2010, to which the reader is referred. The financial statements of the Parent Company and the other companies used to prepare these financial statements refer to 30 June 2011. In certain limited cases, the most recent available official data were used for insignificant equity investments. Where necessary - and only in cases of marginal significance - the financial statements of consolidated entities prepared in accordance with different accounting policies have been adjusted to comply with the Group's policies.

The following table presents the equity investments included within the scope of line-by-line consolidation in the condensed consolidated half-yearly financial statements for the year ended 30 June 2011.

Companies	Registered office	Type of relationship (1)	Equity investment		% of votes (2)
			Investor	% holding	
A. Companies					
A. 1 Line-item consolidation					
Civileasing Srl	Udine	1	Banca Popolare di Cividale	100,00%	100,00%
Banca di Cividale S.p.A.	Cividale	1	Banca Popolare di Cividale	80,00%	80,00%
Tabogan Srl	Cividale	1	Banca Popolare di Cividale	100,00%	100,00%
Nordest banca S.p.A.	Udine	1	Banca Popolare di Cividale	51,39%	51,39%

Principal risks and uncertainties

The current macroeconomic scenario and the extreme volatility of capital markets increase the complexity inherent in assessing credit risk, measuring financial instruments and determining the recoverable amount of other assets and require an analysis of the consequences of such assessments on company solidity and overall operation.

While the reader is referred to the 2010 financial statements for an exhaustive description of the measurement criteria followed, which have remained unchanged, it will nonetheless be expedient to outline the processes of determining the carrying amounts of recognised assets. Additionally, it should be noted that no cause for uncertainty as to the Company's ability to continue to operate has emerged from its financial position, financial structure or operating performance. Loans are classified and measured according to the customary conservative approach aimed at duly and properly capturing the consequences of the adverse development of the current economic scenario. The speed and extent of the exacerbation of the crisis have required constant revision of loans that previously showed signs of distress as well as those without any outward symptoms of deterioration. All classes of impaired loans have been measured according to the customary conservative approach, as witnessed by the average percent provision for non-performing exposures (51.8%) and substandard exposures (17.2%). Performing loans are collectively covered by provisions of more than €13.8 million, resulting in a coverage ratio of 0.5%.

Financial instruments have generally been measured at fair value, which for instruments quoted on active markets was the price on the last day in the period, as required by international accounting standards (effective market quotes). In contrast, financial instruments not quoted on an active market have been measured on the basis of prices and credit spreads inferred from the official quotations of substantively similar instruments in terms of risk factors by using what is known as the "comparable approach." The use of that method translated into a search for transactions and/or values on active markets relating to instruments comparable with the instrument being measured in terms of risk factors. The calculation methodologies employed allow the prices of financial instruments quoted on active markets to be reproduced without including discretionary parameters - i.e., parameters whose value cannot be inferred from quotations of financial instruments on active markets or cannot be fixed at levels that would replicate quotations on active markets - which would have a decisive impact on the final measurement price. Lastly, only when measuring financial instruments not quoted on an active market, to which the comparable approach could not be applied, was measurement based on the use of other inputs, not all of which were inferred directly from parameters observable on the market,

and which thus entailed the use of estimates and assumptions by the valuer (the mark-to-model approach).
For further information concerning credit and financial risks, the reader is referred to the chapter on risk management. In preparing the consolidated interim financial statements, impairment tests were conducted for equity investments, available-for-sale securities, intangible assets and goodwill. Such tests took the form of analyses aimed at detecting indicators of impairment and determining the amount of any impairment loss.
In further detail, equity investments and available-for-sale securities were tested for impairment in order to determine whether there was objective evidence that the carrying amounts of such assets were not fully recoverable by adopting the same methodologies and criteria as illustrated in the 2010 financial statements, to which the reader is referred. Such tests did not result in the need to apply any adjustments, with the exception of the impairment of Greek sovereign debt securities, for which an impairment loss was recognised, as illustrated below.
Intangible assets with indefinite useful lives, represented by goodwill (in the amount of €19,135 thousand as at 30 June 2011), were analysed in order to determine whether there were any indicators that they had become impaired. Those analyses did not result in the need to recognise any impairment losses. As customary, when conducting the impairment tests for the 2011 financial statements, the macroeconomic scenario and capital market situation, which will be consolidated in the coming months, will need to be taken into account.

Use of estimates and assumptions in preparing the condensed financial statements

In preparing the condensed financial statements, use has been made of estimates and assumptions that could have an impact on the amounts recognised in the balance sheet and the income statement and disclosed in the notes. Specifically, the greatest use of subjective assessments by management is required in the following cases:

- determining the amount of impairment losses for financial assets, especially loans and receivables;
- determining the fair values of financial instruments to be used for disclosure purposes and using valuation models to determine the fair values of financial instruments not quoted on active markets;
- assessing the appropriateness of the value of goodwill;
- determining the amounts of staff provisions and provisions for other risks and charges; and
- preparing estimates and assumptions relating to the recoverability of deferred tax assets.

Reasonable estimates and assumptions to be used in accounting for management transactions are formulated through subjective assessments founded upon the use of all available information and past experience.

Subsequent events

During the period between the end of the half-year and the date of authorisation of these condensed financial statements, there were no events of a sort that would have had a significant influence on the information presented herein.

Earnings results

The first six months of 2011 ended with a net income of €6,453 thousand, compared to a net income of €3,254 thousand in the first half of the previous year.
As is customary, a condensed reclassified income statement has been prepared with the aim of permitting a more immediate reading of the results for the period. The analytical details of the reclassifications applied are supplied, in separate tables, among the appendices to the half-yearly report, as required by Consob.

RECLASSIFIED INCOME STATEMENT	30/06/2011	30/06/2010	VAR %
Net interest income (including result of hedging)	40.026	36.598	9,4%
Dividends and net income (loss) of equity investments accounted for using equity method	915	542	68,9%
FINANCIAL INCOME	**40.941**	**37.140**	**10,2%**
Net commissions	10.866	10.305	5,4%
Other operating income (net of recovered expenses)	2.050	2.545	-19,5%
Net trading income	27	(3.106)	-100,9%
Gains (losses) from purchase/sale of loans and financial assets	4.898	290	1588,1%
Net result of fair value measurement of financial assets	-	-	0,0%
OPERATING REVENUES	**58.782**	**47.175**	**24,6%**
Personnel expenses	(20.676)	(19.213)	7,6%
Other administrative expenses (net of recovered expenses)	(12.062)	(11.403)	5,8%
Net impairment/w rite backs on property, plant and equipment and intangible assets (excluding goodw ill)	(787)	(877)	-10,2%
OPERATING COST	**(33.525)**	**(31.492)**	**6,5%**
OPERATING INCOME	**25.256**	**15.684**	**61,0%**
Goodw ill impairment	-	-	0,0%
Charges/w rite-backs on impairment of loans	(14.534)	(10.724)	35,5%
Charges/w rite-backs on impairment of other assets	(915)	140	-752,4%
Net provisions for risks and charges	(19)	429	-104,5%
Valuation differences on property, equipment and intangible assets measured at fair value	-	-	0,0%
Profit (loss) on disposal of investments	-	-	0,0%
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**9.790**	**5.529**	**77,1%**
Tax on income from continuing operations	(3.698)	(2.674)	38,3%
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**6.092**	**2.855**	**113,4%**
Income (loss) after tax from discontinued operations	-	-	0,0%
Minority interest	**361**	**399**	**-9,4%**
NET INCOME FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY	**6.453**	**3.254**	**98,3%**

Operating revenues

Operating revenues amounted to €58,782 thousand in the first six months of 2011, up by €11,607 thousand (24.6%) compared to the first half of 2010. This result was affected to a significant extent by the change in the component "Gains from the sale of financial assets," which, as indicated above, increased significantly compared to the same period of the previous year, as well as by net interest income, which was up by 9.4%. The net commissions component also performed well.

Net interest income

	30/06/2011	30/06/2010	%
Relations w ith customers	51.185	44.968	13,8%
Debt securities issued	(10.591)	(9.845)	-7,6%
Net income from customers	**40.595**	**35.123**	15,6%
Relations w ith banks	(1.757)	5.255	-133,4%
Securities issued	(12.642)	(8.860)	-42,7%
Differentials on hedging derivatives	339	792	-57,2%
Financial assets held for trading	1.312	1.836	-28,5%
Financial assets held to maturity	4.959	3.556	39,4%
Financial assets available for sale	6.683	12	55600,7%
Non - performing assets	-	-	-
Other net interest - Personnel expenses	-	-	-
Other net interest - Revaluation funds	-	-	-
Other net interest	17	17	-1,4%
Net income from banks	**39.506**	**37.731**	4,7%
Net fair value changes in hedge relationships	520	(1.133)	**145,9%**
Total net interest	**40.026**	**36.598**	9,4%

Net interest income, which remains the primary source of revenue, came to €40,026 thousand, up by 9.4% compared to the first half of 2010. The most significant increase was seen in "Net income from customers" (+€5,471 thousand), due in part to the rise in volumes and in part to higher market rates, which began to affect the income statement.

Net income from banks was up by €1,775 thousand compared to the first half of 2010. It should be noted that the aggregate showed a differing allocation amongst its various components compared to the previous period, owing in particular to the decrease in assets invested in bank bonds and securities held for trading, which entailed a decline in net interest income on interbank activity and the trading portfolio, and a rise in the assets invested in the available-for-sale portfolio, trading portfolio and held-

to-maturity portfolio. Accordingly, the net interest on relations with banks decreased by €7,012 thousand, offset by the rise in net interest on the AFS, HTM and HFT portfolios of €7,551 thousand.
Net fair value changes in hedge relationships stood at €520 thousand and reflected changes in interest rates during the reporting period.

Dividends

	30/06/2011		30/06/2010		%
	Dividends	Income from UCI	Dividends	Income from UCI	
A. Financial assets held for trading	-	-	-	-	-
B. Financial assets available for sale	915	-	542	-	68,8%
C. Financial assets recognised at fair value	-	-	-	-	-
D. Equity investments	-	X	-	X	-
Total	**915**	**-**	**542**	**-**	68,8%

Net fee and commission income

	30/06/2011	30/06/2010	%
Guarantees issued	524	524	-0,1%
Collection and payment services	678	615	10,3%
Current accounts	1.601	1.454	10,1%
Commisions on credit facilities	2.532	2.657	-4,7%
Credit and debit cards	922	775	19,0%
Commercial banking activities	**6.256**	**6.026**	**3,8%**
Trading and placement of securities (including mutual funds)	1.702	1.736	-2,0%
Currency dealing	355	360	-1,3%
Portfolio management	1.058	895	18,2%
Distribution of insurance products	246	201	22,2%
Other	0	5	-95,7%
Management, intermediation and advisory services	**3.362**	**3.198**	**5,1%**
Other net fee and commission income	1.249	1.082	15,4%
Net fee and commission income	**10.866**	**10.305**	**5,4%**

Net fee and commission income increased by 5.4% or €561 thousand. The increase in net fee and commission income may be attributed to all types of fees and commissions, with a 3.8% increase in fees and commissions on commercial banking activities, a 5.1% increase in fees and commissions on management, intermediation and advisory services and a 15.4% increase in other net fee and commission income.
Fees and commissions associated with commercial banking activities showed an increase in fees and commissions on current accounts (+10%) compared to the same period of the previous year, partially offset by the decline in commissions on credit facilities.

Net trading income/(loss)

	30/06/2011	30/06/2010	%
Financial assets held for trading	(46)	(1.374)	97%
Financial liabilities held for trading	-	-	-
Derivatives	67	(1.739)	104%
Net trading income/(loss) (interest rates, equity, foreign exchanges)	**21**	**(3.113)**	**100,7%**
Credit derivatives	-	-	-
Other financial assets and liabilities: exchange differences	6	7	-9%
Net trading income/(loss)	**27**	**(3.106)**	**100,9%**

Net trading income or loss includes gains and losses on the disposal of held-for-trading financial assets and the fair-value adjustment of held-for-trading assets. The change compared to the first half of 2010 is due to the improved performance of trading activities, which returned to positive territory following the losses reported in the first half of 2010. In further detail, significant losses were sustained in the previous year on speculative derivative contracts, which were then unwound in the second half of 2010.

Gains (losses) from purchase/sale of loans and financial assets

The caption includes gains on the disposal of loans and financial assets. In particular, as described in this report, during the half-year the Group closed the sale to Credito Valtellinese of its ordinary shares of Banca dell'Artigianato e dell'Industria, representing a 10% interest in the firm, for a total of €16.7 million, resulting in a capital gain of €3.8 million. Additionally, the caption was affected by the realisation of a gain of €0.8 million on the extinguishment of a position in BTP inflation-linked Italian government bonds with a total nominal value of €65 million.

Other operating income/(expenses)

	30/06/2011	30/06/2010	%
Out-of-period expenses and reductions in assets	(269)	(932)	71,1%
Total operating expenses	**(269)**	**(932)**	**71,1%**
Other income - rentals and fees	283	304	-6,9%
Expenses charged to others on deposits and current accounts	1.538	1.368	12,4%
Expenses charged to others - other	312	1.044	-70,1%
Out-of-period income and reductions in liabilities	186	761	-75,6%
Total operating income	**2.319**	**3.477**	**-33,3%**
Total operating income and expenses	**2.050**	**2.545**	**-19,5%**

Other operating income and expenses is a residual caption that includes income and expenses of various types. The caption does not include recoveries of expenses, taxes and duties, which have instead been deducted from administrative expenses in this income statement. The net balance at 30 June 2011, €2,050 thousand, was down (19.5%) compared to the first half of the previous year, primarily due to the discontinuance of several extraordinary components.

Operating costs

	30/06/2011	30/06/2010	%
Wages and salaries	12.991	12.493	4,0%
Social security contributions	3.728	3.498	6,6%
Other personnel expenses	3.957	3.222	22,8%
Total personnel expenses	**20.676**	**19.213**	**7,6%**
Information technology expenses	4.092	3.901	4,9%
Real estate management costs	2.157	2.167	-0,4%
General structure costs	2.509	2.508	0,0%
Professional, insurance and legal expenses	1.415	962	47,1%
Advertising	665	640	3,8%
Outsourcing costs and other services provided by third parties	565	602	-6,1%
Indirect personnel costs	446	448	-0,5%
Recovery of expenses and charges	-	1	-100,0%
Indirect taxes and duties	2.401	2.207	8,8%
Recovery of indirect taxes and duties	(2.187)	(2.033)	-7,6%
Total other administrative expenses	**12.062**	**11.403**	**5,8%**
Net impairment/write-backs on property, plant and equipment	659	714	-7,7%
Net impairment/write-backs on intangible assets	128	163	-21,5%
Total net impairments	**787**	**877**	**-10,3%**
Total operating costs	**33.525**	**31.492**	**6,5%**

Personnel expenses rose from €19,213 thousand to €20,676 thousand (+7.6%) due to the increase in the Banca Popolare di Cividale Group's workforce owing to geographical expansion. "Other personnel expenses" include the estimated negative impact of €290 thousand at the half-yearly level of the adjustment to the new salary levels provided for in the new contractual platform, the approval process for which is still ongoing.

Other net administrative expenses also increased, rising from €11,403 thousand to €12,062 thousand (+5.8%), primarily due to legal expenses and the costs of advisory services and projects aimed at achieving legal compliance. After net impairment of property, plant and equipment and intangible assets of €787 thousand, total operating costs came to €33,525 thousand, up by 6.5% compared to the first half of 2010.

Operating income

Operating income came to €25,256 thousand, up by €9,572 thousand (+61.0% compared to 30 June 2010). As described in detail above, the increase was made possible by the rise in operating revenues (+24.6%), despite being accompanied by higher operating costs (+6.5%). If transactions of a non-recurring nature or amount are excluded from the item, operating income stands at €21,656 thousand.

Net charges/write-backs on impairment of loans and other assets

	30/06/2011	30/06/2010	%
Non-performing loans	(13.250)	(12.273)	-8,0%
Substandard and restructuring loans	(853)	(1.900)	55,1%
Past due	(49)	3.981	-101,2%
Net impairment losses on loans	(381)	(533)	28,5%
Net adjustments to guarantees and commitments	**(14.534)**	**(10.724)**	**-35,5%**
Net profit on disposal or repurchase	**(915)**	**140**	**-752,4%**
Net adjustments to loans	**-**	**-**	**-**
	(15.449)	**(10.584)**	**-46,0%**

The table presenting the breakdown of net charges on impairment of loans shows how the cost is broken down among the various classes of non-performing loans. At nearly 91% of the total, the non-performing class was the largest, marking an increase compared to the first half of the previous year (+€977 thousand). It was followed by substandard and restructuring loans, for which a total net charge of €853 thousand was recognised, down by €1,047 thousand compared to 30 June 2010, whereas past-due positions, to which net write-backs of €3,981 thousand were recognised in June 2010, were written down by €49 thousand in the first half of 2011.

On the whole, net charges on impairment of loans increased by €3,960 thousand, rising from €10,192 thousand to €14,152 thousand, reflecting a more conservative loan assessment policy, with the result that total loan coverage rose from 3.92% at the end of 2010 to 4.31% in the first half of 2011. The lump-sum charges on performing loans allowed for coverage to remain substantially unchanged compared to the same period of the previous year (0.48%). Net charges on impairment of other assets include the effect of write-downs of Greek government securities as a result of the agreement of 21 July, which calls for greater involvement of the European Union and IMF in providing aid to the Greek government. Those write-downs were recognised in the income statement in the amount of €871 thousand by charging the entire negative equity reserve for Greek government bonds classified among available-for-sale assets.

Net provisions for risks and charges

	30/06/2011	30/06/2010	%
customer disputes	(70)	261	-126,8%
revocatory actions	51	338	-84,9%
Other provisions	-	(170)	100,0%
Total	**(19)**	**429**	**-104,4%**

Net provisions for risks and charges amounted to net accruals of €19 thousand due to accruals made to account for complaints lodged by customers and net recoveries associated with bankruptcy revocation suits in which the bank is a defendant.

Income before tax from continuing operations

Income before tax from continuing operations stood at €9,790 thousand in the first half of 2011, up by 77.1% compared to the corresponding period of the previous year. In addition, this positive result was negatively affected by the increase in net charges on impairment of loans and other assets, which overall were up by €3,810 thousand (+35.5%) and the increase in operating revenues (+24.6%) and financial income (+10.2%).

Tax on income from continuing operations

The accrual for current and deferred taxes for the first six months of 2011 came to €3,698 thousand.

Net income

Consolidated net income for the period came to €6,453 thousand, up compared to 30 June 2010 (+98.3%).

Balance sheet aggregates

General aspects

A condensed balance sheet has also been prepared in the interest of permitting a more immediate assessment of the Group's financial position. Compared to the template set forth in Bank of Italy Circular 262/05, some captions have been aggregated, as is customary. The analytical details of the restatements and aggregations of captions are supplied, with separate tables, among the appendices to the financial statements, as required by Consob.

Aggregations of captions involved:

- aggregating property, plant and equipment and intangible assets into a single caption;
- aggregating amounts due to customers and securities issued into a single caption;
- aggregating provisions intended for specific uses (Employee termination benefits and Provisions for risks and charges) into a single caption; and
- presenting reserves in aggregate form, net of any treasury shares.

With the purpose of providing a more effective indication of the composition of aggregates, in the following detail tables and/or comments, financial assets and financial liabilities held for trading represented by derivative contracts and amounts due from and to banks are presented on a net basis.

Reclassified balance sheet

RECLASSIFIED BALANCE SHEET					
ASSETS (thousands of euros)	**30/06/2011**	**COMP %**	**31/12/2010**	**COMP %**	**VAR %**
Cash and cash equivalents	21.500	0,48%	17.552	0,40%	22,5%
Financial assets held for trading	31.161	0,69%	46.149	1,04%	-32,5%
Financial assets available for sale	596.654	13,19%	267.862	6,06%	122,7%
Financial assets held to maturity	180.575	3,99%	304.539	6,89%	-40,7%
Due from banks	421.507	9,32%	585.710	13,25%	-28,0%
Loans to customers	3.098.727	68,50%	3.032.811	68,62%	2,2%
Hedging derivatives	3.416	0,08%	4.529	0,10%	-24,6%
Equity investments	7.888	0,17%	7.784	0,18%	1,3%
Property and equipment and intangible assets	82.008	1,81%	76.875	1,74%	6,7%
Other assets	80.299	1,78%	76.081	1,72%	5,5%
Total assets	**4.523.736**	**100,00%**	**4.419.892**	**100,00%**	**2,3%**
LIABILITIES (thousands of euros)	**30/06/2011**	**COMP %**	**31/12/2010**	**COMP %**	**VAR %**
Due to banks	1.118.145	24,72%	898.118	20,32%	24,5%
Direct funding from customers	2.877.428	63,61%	3.002.839	67,94%	-4,2%
Financial liabilities held for trading	2.994	0,07%	3.399	0,08%	-11,8%
Hedging derivatives	2.472	0,05%	10.528	0,24%	-76,5%
Other liabilities	124.936	2,76%	89.099	2,02%	40,2%
Specific provisions	6.445	0,14%	8.130	0,18%	-20,7%
Shareholders' equity pertaining to minority interests	63.184	1,40%	76.222	1,72%	-17,1%
Shareholders' equity	**328.131**	**7,25%**	**331.557**	**7,50%**	**-1,0%**
Total liabilities	**4.523.736**	**100,00%**	**4.419.892**	**100,00%**	**2,3%**

Comments on the principal balance sheet aggregates are presented below.

Loans to customers
Loans to customers: composition

	30/6/2011			31/12/2010			
	Performing	Non - performing	% breakdown	Performing	Non - performing	% breakdown	Var.%
1. Current accounts	540.104	62.470	19%	529.017	59.360	19%	2,4%
2. Repurchase agreements	-	-	0%	-	-	0%	-
3. Mortgage loans	1.470.717	141.542	52%	1.429.787	127.176	51%	3,6%
4. Credit cards, personal loans and loans repaid by automatic deductions from wages	39.550	576	1%	35.608	493	1%	11,1%
5. Finance leases	306.989	26.396	11%	301.642	28.157	11%	1,1%
6. Factoring	-	-	0%	-	-	0%	-
7. Other	489.873	12.455	16%	485.267	11.368	16%	1,1%
8. Debt securities	8.054	-	0%	24.935	-	1%	-67,7%
8.1 structured	-	-	0%	-	-	0%	-
8.2 other debt securities	8.054	-	0%	24.935	-	1%	-67,7%
Total (carrying amount)	**2.855.287**	**243.440**	**100%**	**2.806.256**	**226.554**	**100%**	**2,2%**

Loans to customers increased by 2.2% compared to the figure for December 2010, reaching €3,098,727 thousand.

The performance of the aggregate illustrates that the increase was evenly distributed among the various technical forms, leaving the percent incidences essentially unchanged compared to year-end.

Loans to customers: credit quality

	30/6/2011		31/12/2010		Var.%
	Val.ass.	indic.%	Val.ass.	indic.%	
Non - performing loans	97.348	3,1%	83.843	2,8%	16,1%
Substandard and restructured loans	105.556	3,4%	114.942	3,8%	-8,2%
Past due positions	40.536	1,3%	27.771	0,9%	46,0%
Total impaired assets	**243.440**	**7,9%**	**226.556**	**7,5%**	**7,5%**
Performing loans	2.847.304	91,9%	2.798.272	92,3%	1,8%
Performing loans represented by securities	7.983	**0,3%**	7.983	**0,3%**	**0,0%**
Loans to customers	**3.098.727**	**100,0%**	**3.032.811**	**100,0%**	**2,2%**

Total impaired assets stood at €243,440 thousand as at 30 June 2011, up by €16,886 thousand from the €226,556 thousand reported at the end of 2010 (+7.5%), with an increase in the weight of the impaired portfolio within total loans to customers, which rose from 7.5% in the previous year to the current 7.9%. In particular, net non-performing loans increased, climbing from €83,843 thousand at the end of 2010 to the present €97,348 thousand. Non-performing loans amounted to 3.1% of total loans, with a coverage ratio of approximately 51.8%, essentially unchanged compared to the previous period (51.9%).

Substandard and restructured loans, which stood at €105,556 thousand, were down by 8.2% (-€9,386 thousand). As a percentage of total loans, substandard and restructured loans fell from 3.8% to 3.4%. The total coverage ratio rose from 16.3% to 17.2%.

Past-due positions stood at €40,536 thousand, up considerably (+€12,765 thousand or +46.0%), with a corresponding increase as percentage of total loans from 0.9% to 1.3%. The coverage ratio for past-due positions came to 4.2%.

Collective adjustments amounted to €13,848 thousand, coming to an average of approximately 0.5% of the gross exposure to performing loans to customers. The coverage ratio remains essentially unchanged with respect to the level reported in December 2010 and is deemed appropriate to accounting for the risk associated with performing loans.

Customer financial assets

	30/6/2011	% breakdown	31/12/2010	% breakdown	% change
Direct funding	**2.877.428**	64%	**3.002.839**	64%	-4,2%
Assets under administration	989.148	21%	1.012.769	22%	-2,3%
Assets under management	633.642	14%	644.914	14%	-1,7%
Indirect funding	**1.622.790**	36%	**1.657.683**	36%	-2,1%
Customer financial assets	**4.500.218**	**100%**	**4.660.522**	**100%**	**-3,4%**

Customer financial assets (direct and indirect funding) came to €4,500,218 thousand as at 30 June 2011, down by 3.4% compared to 31 December 2010 (-€160,304 thousand). The greatest decrease was reported in direct funding (-€125,411 thousand or -4.2% compared to December 2010), while indirect funding declined by 2.1% (-€34,893 thousand). In further detail, there were increases in asset management schemes, which rose to €289,597 thousand, and the insurance component, which accounted for €97,329 thousand, while mutual funds declined, totalling €246,716 thousand.

Direct funding

	30/6/2011	% breakdown	31/12/2010	% breakdown	% change
Current accounts and deposits	1.147.439	40%	1.181.496	39%	-2,9%
Repurchase agreements and securities lending	67.319	2%	205.672	7%	-67,3%
Bonds	1.497.056	52%	1.507.307	50%	-0,7%
Certificates of deposit	28.714	1%	29.163	1%	-1,5%
Subordinated liabilities	55.126	2%	55.101	2%	0,0%
Other deposits	81.775	3%	24.099	1%	239,3%
Total direct funding	**2.877.428**	**100%**	**3.002.838**	**100%**	**-4,2%**

Direct funding consists primarily of current accounts and deposits (40%), down by 2.9% (-€34,057 thousand) and bonds (52%), also down compared to December 2010 (-0.7% or -€10,251 thousand). The residual technical forms remain marginal, accounting for a total of 8% (€232,934 thousand), down by €81,101 thousand compared to the end of the previous year.

Bonds

In the first six months of 2011, the Group issued and placed a total of 17 new bonds. The gross receipts during that period were €389,203 thousand. Considering the redemptions undertaken during the half-year (23 bonds totalling €375,409 thousand), net redemptions stood at €13,794 thousand.

Indirect funding

A presentation of the dynamics of indirect funding, broken down into assets under administration and assets under management, is provided below in the interest of completing the analysis of the performance of the resources entrusted to the Group by its customers.

	30/6/2011	% breakdown	31/12/2010	% breakdown	% change
Mutual Funds	246.718	15%	264.347	16%	-6,7%
Portfolio management	289.597	18%	286.490	17%	1,1%
Life technical reserves and financial liabilities	97.327	6%	94.077	6%	3,5%
Assets under management	**633.642**	**39%**	**644.914**	**39%**	**-1,7%**
Assets under administration	**989.148**	**61%**	**1.012.769**	**61%**	**-2,3%**
Indirect funding	**1.622.790**	**100%**	**1.657.683**	**100%**	**-2,1%**

Indirect funding under management or administration by the Company came to €1,622,790 thousand as at 30 June 2011, down by €34,893 thousand or -2.1% compared to the end of 2010.
In further detail, "Assets under administration" stood at €989,148 thousand at the end of the half-year, down by €23,621 thousand (-2.3%) compared to the end of the previous year.

"Assets under management" also declined, decreasing by €11,272 thousand (-1.7%).

Financial assets/liabilities held for trading

	30/6/2011		31/12/2010		% change
		% breakdown		% breakdow	
Trading derivatives - Assets	2.901	10%	2.808	7%	3,3%
Property titles	28.261	100%	43.341	101%	-34,8%
Financial assets held for trading	**31.162**	**111%**	**46.149**	**108%**	**-32,5%**
Trading derivatives - Liabilities	3.574	13%	4.205	10%	-15,0%
Financial liabilities held for trading	**2.994**	**11%**	**3.399**	**8%**	**-11,9%**
Net financial assets and liabilities	**28.167**	**100%**	**42.749**	**100%**	**-34,1%**

Net financial assets held for trading - designated at fair value through profit or loss - came to €28,167 thousand net of financial liabilities held for trading, down considerably (-€14,582 thousand) compared to the end of 2010 (-34.1%), principally due to the non-derivative financial instruments classified to this category.

Financial assets available for sale

	30/6/2011		31/12/2010		% change
		% breakdown		% breakdown	
Bonds and other debt securities	522.368	88%	213.298	80%	144,9%
Equities and quotas of mutual funds	74.286	12%	54.564	20%	36,1%
Financial assets available for sale	**596.654**	**100%**	**267.862**	**100%**	**122,7%**

Financial assets available for sale totalled €596,654 thousand, up by 122.7% compared to 2010. The caption comprises bonds and other debt securities of €522,368 thousand and equities and interests in mutual funds of €74,286 thousand. The caption consists of 12% equity investments, while the remainder refers to investments in Italian government bonds. The equity interests included in the aggregate remain below the control/significant influence threshold.

Exposure to sovereign credit risk

As is common knowledge, the public debt crisis and the ensuing tensions on capital markets have led the European Union and International Monetary Fund to intervene repeatedly to provide financial aid to the countries in greatest difficulty. Interventions have targeted Greece, Ireland and Portugal. However, such interventions only involved the private sector in the case of Greece. For information concerning exposures to Greece, the reader is referred to the following section. The Group does not have exposures to Ireland and Portugal. The following tables present the Group's exposure to sovereign credit risk by carrying amount, broken down by type of instrument.

Financial assets available for sale

Country	Up to 2011	From 1 to 5 years	From 5 yo 10 years	More than 10 years	Total fair value	Recognized impairment	Total valuation reserve	Total Fair value per FV level
Italy	-	209.021	7.831	-	216.852	(1.128)	(2.256)	
Spain	-	-	-	-	-	-	-	
Portugal	-	-	-	-	-	-	-	
Ireland	-	-	-	-	-	-	-	
Greece	-	2.883	-	-	2.883	873	-	
Other EU countries	-	-	-	-	-	-	-	
Total	**-**	**211.904**	**7.831**	**-**	**219.735**	**(255)**	**(2.256)**	**-**

Financial assets held for trading

Country	Up to 2011	From 1 to 5 years	From 5 yo 10 years	More than 10 years	Total fair value	Fair value level		
						Level 1	Level2	Level 3
Italy	-	1.204	-	-	1.186	1.186	-	-
Spain	-	-	-	-	-	-	-	-
Portugal	-	-	-	-	-	-	-	-
Ireland	-	-	-	-	-	-	-	-
Greece	-	-	-	-	-	-	-	-
Other EU countries	-	-	-	-	-	-	-	-
Total	**-**	**1.204**	**-**	**-**	**1.186**	**1.186**	**-**	**-**

Exposure to Greece

As at 30 June 2011, the Group's total exposure to the Greek government amounted to €4.0 million in terms of nominal value, carried at €2.9 million.

Following the intensification of the Greek debt crisis and expectations on capital markets of an extensive, credible aid plan, on 21 July European heads of state and government approved a complex plan to aid the Greek government that calls for further involvement by the European Union and IMF, expanded powers and further action by the EFSF and the participation of private institutional investors. Within that plan, banks and insurers defined some possible courses of aiding the Greek government, under the coordination of the Institution of International Finance (IIF). Such possibilities include an exchange/roll-over programme to swap bonds maturing by 2020 for new 15- and 30-year bonds issued by the Greek government. Four possible courses of private-sector intervention were identified, modulated to varying degrees according to the maturity, rate and guarantees associated with the new bonds, which are estimated to result in a 21% loss in terms of NPV, assuming a discount rate of 9%, a rate on which Greek debt could converge owing to the new aid measures approved. It is therefore clear that the complexity and extent of the aid package mean that its effects on the Greek government's solvency cannot yet be fully assessed, given the recent determination of aid conditions and the current lack of the technical details of the proposed exchange/roll-over process to affect private institutional investors.

In preparing the half-yearly report for this six months ended 30 June 2011, the securities within the scope of the agreement have been measured according to the policies applicable to the classes concerned and the type of participation by private investors proposed under the above-mentioned agreement. In particular, as at 30 June 2011 the Group held two Greek bonds, both classified among financial assets available for sale and set to mature prior to 2020, which have been measured at fair value on the basis of quoted prices as at 30 June 2011.

Given that the debt in question is owed by a sovereign entity and the fact that supranational entities have enacted protective mechanisms for this type of debt, in preparing this half-year report impairment losses have been recognised on government bonds set to mature prior to 2020, for which the conditions of participation by private institutional investors according to the cited agreement have been taken into account. Accordingly, an impairment loss of €0.9 million has been recognised, in reference to quotations as at 30 June 2011, by charging the entire negative equity reserve for securities classified among assets available for sale to the income statement.

The above measurements will be reviewed again in the forthcoming annual report to assess developments relating to the cited agreements, the evolution of market scenarios and, generally, the Greek government's solvency. The following table presents a breakdown of exposures to Greek government bonds.

	NV 30/06/2011	FV 30/06/2010	Impairment	Total valuation reserve (net of tax effect)
Financial assets available for sale	-	-	-	-
of which maturing by 2020	4.000	2.883	873	-
of which maturing after 2020	-	-	-	-
Financial assets measured at fair value	-	-	-	-
TOTALE	4.000	2.883	873	-

In addition to the foregoing exposures, the Group presents exposures in securities to several Greek banks with a nominal value of €8.0 million, carried among loans at their amortised cost of €8.0 million. The measurement policies for such exposures in the interim financial statements remain the same as those applied in the 2010 financial statements and no impairment losses have been recognised.

Net interbank position

Interbank position	30/06/2011	31/12/2010	VAR	VAR %
Cash and cash equivalents	21.500	17.552	3.948	22,49%
Loans to banks	421.507	585.710	(164.203)	-28,03%
Due to banks	(1.118.145)	(898.118)	(220.027)	24,50%
NET INTERBANK POSITION	**(675.137)**	**(294.855)**	**(380.282)**	**128,97%**

Net interbank position stood at net borrowings of €675,137 thousand due to the decrease in loans to banks (-€164,203 thousand) and the increase in amounts due to banks (+€220,027 thousand).

Movement in provisions for risks and charges

	Revocatory actions	Customer disputes	Other provisions	Total
A. Opening balance	**1.617**	**672**	**60**	**2.349**
B. Increases	**21**	**70**	**-**	**91**
B.1 Provision for the year	21	70	-	91
B.2 Changes due to passage of time	-	-	-	-
B.3 Changes due to changes in discount rate	-	-	-	-
B.4 Other increases	-	-	-	-
C. Decreases	**1.250**	**445**	**-**	**1.695**
C.1 Use during the year	1.178	445	-	1.623
C.2 Changes due the changes in discount rate	-	-	-	-
C.3 Other decreases	72	-	-	72
D. Closing balance	**388**	**297**	**60**	**745**

Shareholders' equity attributable to the Group

The Group's shareholders' equity stood at €329,228 thousand as at 30 June 2011. A reconciliation of the shareholders' equity and net income of the Parent Company, as presented in the financial statements as at 30 June 2011, and the corresponding consolidated figures as at the same date, is presented below.

Dividends distributed

Allocation of net income	31/12/2010
To Legal reserve	1.010.000
To Statutory reserve	1.354.665
To the Shareholders as dividend	7.485.335
Available to the Board of Directors for charities	250.000
Net income for the period	**10.100.000**

Earnings per share

The methods of calculating basic earnings per share and diluted earnings per share are defined by IAS 33 *Earnings per Share*. Basic earnings per share is defined as the relationship between the net income attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the period. The following table presents basic earnings per share and the details of the calculation.

	30/06/2011
Earnings attributable to holders of ordinary equity instruments	9.135
Weighted average numbers of shares	16.634.078
Basic earning per share	**0,5492**

Statement of reconciliation between the shareholders' equity and net income of the Parent Company and the shareholders' equity and net income of the Group

	30/06/2011		31/12/2010	
	Shareholder's equity	of which: net income of period	Shareholder's equity	of which: net income of period
Balance in Parent company financial statements	**292.382**	**9.135**	**285.219**	**10.100**
Pro rata results of equity investments				
- line item consolidation	(391)	(391)	5.348	5.348
- accounted for using equity method	105	105	98	98
Amortization of goodwill				
- current year	-	-	-	-
- previous years	-	-	-	-
Differences with consolidated on line-item basis				
- companies consolidated on line-item basis	42.629	-	46.623	-
- companies accounted for using equity method	270	-	165	-
Dividends received in the period				
- current year	-	(2.490)	-	(4.306)
- previous years	-	-	-	-
Consolidation adjustments				
- elimination of intercomany profits and losses	(5.060)	(30)	(3.934)	(1.719)
- other adjustments	(1.804)	125	(1.962)	(1.403)
Balance in consolidated financial statements	**328.132**	**6.454**	**331.557**	**8.117**

Valuation reserves

As at 30 June 2011, valuation reserves showed a net increase of €587 thousand compared to the end of the previous year, attributable primarily to the increase in the value of financial assets available for sale of the subsidiary Banca di Cividale S.p.A. (+€1,286 thousand) and the Parent Company, Banca Popolare di Cividale S.c.p.A. (-€1,015 thousand).

Regulatory capital

As at 30 June 2011, regulatory capital came to €407,212 thousand, down by €24,700 thousand (-5.7%) compared to the end of the previous year. The change is primarily to be ascribed to the closing of the transaction that resulted in the repurchase by the Parent Company of a 5% interest in Banca di Cividale S.p.A from Credito Valtellinese.

The amount of regulatory capital ensures a large margin of coverage of the capital requirements established under applicable regulations and provides adequate support for expansion projects.

	30/6/2011	31/12/2010	%
A. Tier 1 capital before the application of prudential filters	348.865	365.462	-4,54%
B. Tier 1 capital prudential filters:	-	-	-
- positive IAS/IFRS prudential filters (+)	-	-	-
- negative IAS/IFRS prudential filters (-)	-	-	-
C. Tier 1 capital after prudential filters (A+B)	348.865	365.462	-4,54%
D. Elements to deduct from Tier 1 capital	**(6.379)**	**(2.259)**	**182,38%**
E. Total Tier 1 capital (C-D)	342.486	363.203	-5,70%
F. Tier 2 capital before the application of prudential filters	67.841	71.769	-5,47%
G. Tier 2 capital prudential filters	-	(801)	-100,00%
G.1 Positive IAS/IFRS prudential filters (+)	-	-	-
G.2 Negative IAS/IFRS prudential filters (-)	-	(801)	-100,00%
H. Tier 2 capital before deductions (G+F)	71.105	70.968	0,19%
I. Elements to deduct from Tier 2 capital	**(6.379)**	**(2.259)**	182,38%
L. Total Tier 2 capital (H-I)	64.726	68.709	-5,80%
M. Elements to deduct from Tier 1 and Tier 2 capital	-	-	-
N. Regulatory capital (E+L-M)	407.212	431.912	-5,72%
O. Tier 3 capital	-	-	-
P. Regulatory capital included Tier 3 (N+O)	407.212	431.912	-5,72%

Capital adequacy

The Banca Popolare di Cividale Group has exceeded regulatory capital adequacy requirements. As at 30 June 2011, the ratio of tier 1 capital to risk-weighted assets stood at 12.2%, unchanged compared to the end of 2010. The ratio of regulatory capital to risk-weighted assets amounted to 14.5% (unchanged compared to the end of 2010).

	Unweighted amounts		**Weighted amounts / requirements**	
	30/06/11	**31/12/10**	**30/06/11**	**31/12/10**
A. RISK ASSETS				
A.1 CREDIT AND COUNTERPARTY RISK	**8.411.837**	**8.045.673**	**3.049.064**	**3.003.401**
1. Standard methodology	8.411.837	8.045.673	3.049.064	3.003.401
2. Methodology based on internal ratings				
2.1 Base				
2.2 Advanced				
3. Securitisations				
B. CAPITAL REQUIREMENTS			**241.311**	**238.420**
B.1 CREDIT AND COUNTERPARTY RISK	X	X	221.714	220.505
B.2 MARKET RISK	X	X	4.862	3.179
1. Standard methodology	X	X	4.862	3.179
2. Internal models	X	X		
3. Concentration risk	X	X	-	-
B.3 OPERATIONAL RISK	X	X	-	-
1. Base methodology	X	X	14.735	14.735
2. Standard methodology	X	X		
3. Advanced methodology	X	X		
B.4 Other capital requirements	X	X		-
B.5 Other calculation elements	X	X		-
B.6 Total capital requirements				
C. RISK-WEIGHTED ASSETS AND CAPITAL RATIOS	**X**	**X**		
C.1 Risk-weighted assets	X	X	2.817.154	2.980.248
C.2 Tier 1 capital / Risk-weighted assets (Tier 1 capital ratio)	X	X	12,16%	12,19%
C.3 Total capital / Risk weighted assets (Total capital ratio)	X	X	14,45%	14,49%

Risk management

Identifying the risks to which the Group is potentially exposed is crucial for assuming such risks in an informed manner and managing them effectively, using the appropriate tools and techniques to mitigate and transfer those risks.

Attentive risk management, using a prudent approach and implemented within a precise organisational framework, aims to contain the volatility of expected results. As a retail bank, the Group is exposed mainly to credit risk. Its internal rules, operating procedures and monitoring structures designed to protect against business risks have been developed according to a model that integrates monitoring methods at various levels, all converging with the goals of ensuring the efficiency and effectiveness of operating processes, preserving the company’s assets, protecting it from losses, ensuring the reliability and integrity of information and verifying the proper conduct of operations in accordance with internal and external regulations. Controls are divided by type: line controls, aimed at ensuring that transactions are carried out properly, normally incorporated in procedures or performed by operating units and carried out as part of back-office activities; at a second level, there are risk management controls, performed by non-operating units, geared towards defining risk assessment methodologies, verifying whether the authorisations given have been complied with, controlling whether the operations of individual areas are consistent with the assigned risk-return targets, and verifying whether the specific function complies with banking regulations; and at a third level, there is internal auditing, aimed at identifying irregular events and violations of procedures and regulations, and assessing the functionality of the internal control system as a whole, assigned to structures independent of operating units, through onsite verifications, performed continually, periodically, or as required. The entire internal control system is periodically evaluated by the Board of Directors in order to constantly improve strategies and operating processes and assess business risks.

ICAAP at the Banca Popolare di Cividale Group

The new prudential supervisory regulations for banks issued by the Bank of Italy in Circular 263 of 27 December 2006 require intermediaries to institute adequate processes and tools for determining an appropriate level of internal capital to account for all types of risks, including those not covered by total capital requirements (“pillar one”).

An account of this process is given in the ICAAP report, which deals with the following issues:

- mapping the risks to which the Group is or may be exposed;
- identifying methods for assessing risk exposure;
- defining current and prospective capital adequacy targets in the light of the risk identified and taking account of the strategic and operational objectives that it has been decided to pursue; and
- conducting a qualitative self-assessment of the integrity and consistency of the entire process.

Primary responsibility for this process is assigned to corporate bodies, which are charged with preparing appropriate corporate governance systems and adequate management and control mechanisms for dealing with the risks to which the Group may be exposed.

The corporate bodies and company functions that are most deeply involved in conducting the process are the Board of Directors, Board of Statutory Auditors, General Manager and all of the individual operating units of the Group affected by the identification, assessment and management of risks, each acting within its sphere of competence.

A relevant role in ICAAP has been assigned to the Risks and Compliance Unit, which is responsible for initiating all stages of ICAAP, as well as collecting and presenting the results obtained to the company’s management.

Lastly, the Auditing Unit conducts an audit of the process both as a whole and at the level of its single components with the aim of assessing the effectiveness/efficiency and consistency thereof with applicable legislation.

Credit risk

General aspects

Lending to support local economic development in the area where the Group operates is a key factor in determining the strategies of the Banca Popolare di Cividale Group.

Our growth policy, partly achieved through network expansion, continues to pursue the goal of improving credit quality, in part through the ongoing enhancement of the tools used to monitor individual positions and analyse the distribution of lending by segment and branch of economic activity.

Most recently, with the introduction of models for analysing loan performance and scoring systems, work has focused on adding capabilities for forecasting developments in the loan portfolio.

Credit risk management policies

Organisational aspects

The organisational structure of the Group’s “lending” area is designed to ensure efficient selection of individual borrowers by analysing creditworthiness and minimising the risk of default, giving preference to lending for commercial purposes or for new productive investments, rather than merely financial initiatives.

These objectives are pursued through the adoption of specific operating methods in all phases of customer relations management (loan application, loan granting, monitoring and impaired positions).

From the very start of the loan assessment and granting process, risk is controlled by ascertaining evidence of customer reliability through an assessment of the current and future ability to generate sufficient income and suitable cash flows.

This information forms the basis of the assessment of the nature and extent of the proposed loan, taking into account the applicant's effective needs, developments in any existing credit relationship and the presence of any links between the customers and other borrowers.

The loan disbursement process provides for different levels of independence among Group branches depending on the size of the loan. For larger amounts, with further distinctions made by risk profile, positions are evaluated by the competent governing bodies and headquarters.

Management, measurement and control systems

The credit risk assessment and management process assesses the full range of traditional quantitative (income components, financial analysis and internal performance data) and qualitative factors (extensive knowledge of customers and the competitive environment in which they operate).

The factors considered in the decision-making process are supplemented by the full complement of databases available to assist banks, such as the Central Credit Register and Small Loans Register.

The Loan Monitoring Unit monitors developments in loans using computerised procedures designed to identify signs of potential impairment and a composite risk indicator, as well as by systematically monitoring positions for which evidence of impairment is found, with the aim of timely detecting the impairment of risk positions and including them in a specific process for managing impaired positions.

Such positions are classified into various risk level categories. Exposures to customers in bankruptcy or substantially similar situations are classified as non-performing loans. Exposures to customers experiencing temporary difficulties expected to be remedied within a reasonable period of time are classified as substandard loans.

When analysing credit risk, the Group’s Risk Management Unit aims to provide a “portfolio” view of “loans to customers” grouped together by economic sector, size and geographical location.

Monthly reporting is based on Central Credit Register data broken down into various categories. Quantitative and qualitative performance is monitored by assigning customers to various risk classes (performing, past-due, substandard and non-performing loans).

Schedules are also prepared to show concentration by sector, geographical location, counterparty and loan type.

A section of the report also focuses on the aggregate results of the rating system for the business segment (approximately 80% of loans) on the basis of a statistical model developed by the information technology provider in reference to Italian banks with similar customer bases (primarily SMEs).

Such ratings are used solely as a further factor in evaluation and do not play a decisive role in the loan assessment process.

Credit risk mitigation techniques

The acquisition of guarantees involves an assessment of the formal and substantive validity of documentation that includes ascertaining the legal capacity to contract required to provide the guarantee in question.

Checks are supplemented at the central level, where securities are held and contracts managed.

In the case of pledges, only specified and easily liquidated assets are eligible for acquisition and valuation under the procedure.

Where mortgages are concerned, the assets are valued by external appraisers, except in special, low-value cases.

In 2009 the Bank began to use a revaluation service for property securing mortgage loans based on statistical methods offered by an external provider. For exposures of more than €3 million, appraisals are currently being revised by an independent expert.

Before personal guarantees are accepted, checks are often made at the competent register of deeds to ascertain the guarantor’s actual real-estate portfolio, bearing in mind the possibility of a rapid, unexpected depletion of the asset base.

Guarantees are always considered to be a subsidiary element in the assessment of loan applications and are not sufficient alone for a loan to be granted.

Non-performing financial assets

The Legal Department collaborates with the Loan Monitoring Unit, both of which are assigned to the Parent Company to manage impaired loans (substandard positions and non-performing loans) by using the technical and organisational procedures and methods illustrated in this section.

Positions classified as substandard are identified by the Loan Monitoring Unit according to a series of analyses concerning internal trend indicators (with a special emphasis on positions past due date by more than 90 or 180 days), the return flow of data from central credit registers, sector data, data from the financial statements of individual borrowers and any adverse recordation and/or registration.

Classification of individual positions as substandard is decided by the Bank Loan Committee or Group Loan Committee on the basis of their area of responsibility, usually on the recommendation of the Loan Monitoring Unit, and also according to supervisory criteria for identifying what are known as “objective substandard positions."

The committees also determine the amount of provisions to be made. Likewise, the Bank Loan Committee or Group Loan Committee also decides whether to remove substandard status and reclassify the loan among ordinary positions.

Once a loan is classified as substandard or “watch-list,” the decision-making powers of individual loan officers are suspended and any further decision on extending loans rests solely with collegial bodies.

Substandard loans are systematically monitored by the Loan Monitoring Unit, which provides ongoing support to individual branches concerning methods of handling positions and the steps to be taken to restore the positions to performing status.

The Parent Company’s Legal Department is responsible for managing non-performing loans. The procedure for classifying a position as a non-performing loan is analogous to that used for managing substandard loans. Decisions concerning the amounts of individual provisions, as well as any changes, are made by the Bank Loan Committee or the Group Loan Committee at the recommendation of the Legal Department.

The impaired loan management process begins with the constant monitoring of the status of individual loan recovery procedures and the monitoring of non-performing loan status by mapping them using a large number of selection criteria (amount category, procedure status, position manager, etc.). All changes relating to impaired financial assets are examined monthly by the boards of directors.

Market risk

The Group’s investment policy is inspired by the goal of limiting market risk in its various forms (interest-rate risk, price risk and exchange-rate risk).

Interest rate risk and price risk - regulatory trading book

The trading book, as defined in supervisory reporting rules, includes financial instruments subject to capital requirements for market risks.

General aspects

The trading book consists of:

- bonds;
- equities;
- units of harmonised UCIs; and
- trading derivatives.

The bond component of the portfolio consists predominantly of floating-rate securities. The fixed-rate portion (Italian Treasury bonds with a variety of maturities) has a short duration. The bond portfolio mainly comprises securities issued by the Italian Republic or Italian banks with ratings above investment grade. Direct equity investments, which are residual in extent, are almost all highly liquid securities listed on the Italian stock exchange. The financial instruments in the book are almost exclusively denominated in euro.

The Group does not hold positions in structured loan products (collateralised debt obligations, commercial mortgage-backed securities, or exposures to sub-prime and alt-A mortgages). Likewise, the Bank has no ties whatsoever to special-purpose entities with exposures to risky financial instruments. Structured derivatives are used for hedging purposes, chiefly to hedge mortgage loans at fixed rates and bonds issued.

Interest rate risk management process and assessment methods

The Group’s investment policy is aimed at limiting market risk for those components of such risk that it knowingly intends to assume:

- interest-rate risk;
- price risk; and
- exchange-rate risk.

The Bank does not normally assume positions that entail commodity risk. Risk-hedging instruments and techniques are used to manage the trading book.

In accordance with the mission of a retail banking group that primarily assumes credit risk in respect of specific customer segments, financing activity is essentially aimed at protecting the overall financial balance of the Group and its member banks. By investing in readily liquidated assets, trading book management is geared towards containing liquidity risk in situations of stress. Investment and trading activity is conducted in accordance with the guidelines established at the relevant Group levels and is carried out within a comprehensive system of delegated powers and specific rules setting operational restrictions in terms of instruments, amounts, investment markets, types of security and issuer, sector and rating. Both analytical models (determination of the duration of the bond portfolio for interest-rate risk exposure) and statistical techniques (estimate of the total value at risk, net of mitigation through portfolio diversification) are used in measuring risk. The portfolio approach is based on the daily value at risk (VaR) estimated using the Montecarlo Method for a ten-day holding period with a 99% confidence interval. VaR lets the Bank measure the maximum loss that the trading book could sustain according to actual historical volatility data (for the twelve previous months) for the financial instruments held in the trading book. This model is not used to calculate the capital requirement for market risks.

Interest rate risk and price risk - banking book - qualitative information

The banking book consists of all financial assets and liabilities not included in the trading book. The largest item consists of loans to and amounts due to banks and customers.

General aspects, management procedures and assessment methods for interest rate risk

The Banca Popolare di Cividale Group seeks to limit the interest-rate risk of the banking book by indexing items and using hedging instruments. Operational management of interest-rate risk is centralised with the Banca Popolare di Cividale Group, which implements the directives handed down by the ALCO concerning the management of the interest-rate risk position in the banking book.

The Group's interest rate risk is considerably reduced thanks to a long-term policy of neutralising risk in advance by systematically indexing items and/or adopting fair-value hedging.

Fair value hedging

Fair-value hedging is used to cover the interest-rate risk on lending and funding items originated at a fixed rate with a medium-/long-term maturity.

It consists of using OTC derivatives (interest-rate swaps) as specific hedges against interest-rate risk in respect of the issuance of fixed-rate bonds and, to a lesser extent, the disbursement of fixed-rate medium-/long-term loans. Fair-value hedging makes it possible to manage interest-rate risk because it essentially transforms all banking book assets and liabilities into floating-rate items (with the exception of residual amounts that carry reduced interest-rate risk due to their maturity and total amount). Hedge accounting is used for hedging activities. Prior to evaluating the effectiveness of hedges, the conditions for applying hedge accounting are verified. A particular emphasis is placed on identifying the risks hedged, documenting the hedging relationships (hedging cards) and expressly stating the ways in which hedges are determined to be effective. Effectiveness tests are carried out using periodic prospective and retrospective tests throughout the life of the hedge. Prospective tests examine sensitivity to variations in interest rates, expressed as variations in fair value caused by parallel shifts of one basis point in the yield curve. Throughout the duration of the hedging relationship, prospective tests serve as an early-warning system for potential future ineffectiveness, making it possible to modify the hedging relationship appropriately. Retrospective tests examine changes in the fair value of the hedged item and hedging instrument since the inception of the hedge, recalculated at each effectiveness testing date. Effectiveness tests use monetary ratios, meaning that small variations in the numerator or denominator can generate values that fall outside the permitted interval. As the spirit of regulations is to ensure verification of the substantive effectiveness of the hedge, where effectiveness is caused by such technical factors it is necessary to ascertain whether substantive effectiveness is maintained by, for example, applying a minimum materiality threshold to the variation in the value of the portfolio consisting of the hedged item and the hedge.

Cash flow hedging

No cash-flow hedges were undertaken and there are no open cash-flow hedges.

Disclosure concerning financial products

In accordance with the requests for the utmost transparency put forward by national and supranational regulators, the following section contains disclosures concerning the ways in which fair value is determined.

Determining the fair value of financial instruments

Fair value is the amount for which an asset could be exchanged (or a liability settled), between knowledgeable, willing parties in an arm's-length transaction. A fundamental aspect of the definition of fair value is the presumption that an entity is fully operational and is not forced to liquidate or considerably reduce its operations or to undertake transactions under disadvantageous conditions. Fair value reflects the credit quality of the instrument inasmuch as it incorporates counterparty risk.

The fair value of financial instruments is determined:

- through the use of prices obtained from financial markets for instruments quoted on active markets; and
- through the use of internal valuation models for other financial instruments.

Instruments are assigned to a fair value level in accordance with IFRSs on the basis of this distinction, as illustrated below:

1. Level 1. The instruments are quoted on markets considered active. The definition of an active market is provided below.
2. Level 2. The instruments are not quoted or are quoted on markets not considered active: a valuation model (mark-to-model) must therefore be adopted. For an instrument to be classified to level 2, all model input data that have a substantive effect on the overall measurement of the instrument must be able to be obtained or derived from the market and represent all risk factors that affect the valuation of the instrument concerned (interest rates, exchange rates, credit spreads, market volatility, etc.). Input data may refer to the instrument concerned or,

where such data is unavailable, to instruments deemed comparable (under the comparable approach). For certain instrument types (e.g. shares), the comparable approach also includes recent relevant transactions involving the instrument or similar products.

3. Level 3. The instruments are not quoted or are quoted on markets not considered active: a valuation model (mark-to-model) must therefore be adopted. In order for an instrument to be classified to level 3, at least one of the model input data items that have a substantive effect on the instrument’s overall valuation must not be able to be obtained or derived from the market, but rather be subject to estimation by the valuer (e.g., application of methods for estimating projected future cash flow, repayment schedules or correlations between underlying for options or structured products).

The definition of an “active market” for the purposes of measuring an instrument is based on the indications provided in IAS 39 AG71, which states that an instrument is quoted on an active market if its prices are:

- quoted;
- readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency; and
- represent actual, regularly occurring market transactions on an arm's length basis.

IAS 39 does not provide a precise definition of an “active market” and does not explain how to determine whether a market is active.
It also helpful to consider the following:

- The definition of an "active market" is a process that is developed internally by each entity in accordance with the indications provided in IFRSs and its own internal policies.
- The various markets and different instrument types must be analysed separately.
- The presence of brokers and trading systems, and each entity’s ability to interface with such brokers and systems, must be considered for each market.
- The analysis must consider all activities performed on the market.
- The time required to close a transaction must also be considered.
- The data employed must be credible and verifiable.

On the basis of the foregoing considerations, the Group has developed a framework for identifying active markets specific to the various types of financial instruments.
In addition, the Group uses the bid prices of assets and the ask prices of liabilities as the fair values of financial instruments quoted on active markets.

Determining amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction for impairment or uncollectibility.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or until the repricing date. To calculate present value, the effective interest rate is applied to the future cash payments or receipts over the entire useful life of the financial asset or financial liability - or a shorter period if certain conditions have been met (for example, the revision of market rates).
After initial recognition, amortised cost allows the revenues and costs deducted from or added to the instrument to be allocated over that instrument's entire expected life through the amortisation process.
Amortised cost is determined differently depending on whether the financial asset or financial liability to be measured is fixed-rate or floating-rate and, in the latter case, whether the range of rate fluctuation is known in advance. For instruments with fixed rates or fixed rates by time bands, future cash flows are quantified according to the known interest rate (single or floating) over the life of the loan. For floating-rate financial assets or financial liabilities, the range of fluctuation of which is not known in advance (for example, because it is linked to an index), cash flows are determined according to the most recent known rate. Whenever the rate is revised, the repayment schedule and effective interest rate are recalculated over the entire useful life of the instrument, i.e. through its maturity date. The adjustment is recognised as income or expense in the income statement.
Loans, financial assets held to maturity, amounts due to customers and banks and debt securities issued are measured at amortised cost.

Financial assets and financial liabilities traded at arm's length conditions are initially recognised at fair value, which normally corresponds to the amount disbursed or paid, including directly attributable transaction costs and commissions in the case of instruments measured at amortised cost.
Transaction costs are internal or external marginal costs and income attributable to the issuance, acquisition or disposal of a financial instrument that may not be charged back to the customer. Such commissions, which must be directly attributable to the individual financial asset or financial liability concerned, affect the original effective return and result in a difference between the effective interest rate associated with the transaction and the contractual interest rate. Transaction costs do not include costs or income associated with several transactions without distinction and components associated with events that may occur during the life of the financial instrument, but are not uncertain upon initial definition, such as give-up commissions, commitment fees and prepayment fees.
Hedged financial assets and financial liabilities are not measured at amortised cost. Rather, changes in fair value associated with the hedged risk are recognised in the income statement (as limited to the hedged risk). However, measurement of such financial instruments at amortised cost resumes if the hedge ceases to exist, at which time all previously recognised changes in fair value are amortised, calculating a new effective interest rate that contemplates the value of the loan, adjusted for the fair value of the hedged portion, through the originally expected maturity of the hedge. In addition, as discussed above in the section concerning the measurement of loans, amounts due to banks and customers and debt securities issued, measurement at amortised cost does not apply either to financial assets and financial liabilities whose brief duration leads to the belief that the economic effect of discounting would be negligible, or to loans without a fixed maturity date and demand loans.

Determining impairment losses

At each reporting date, financial assets not classified as financial assets held for trading and financial assets designated at fair value are tested for impairment in order to determine whether there is objective evidence that the carrying amount of the assets may not be fully recoverable.
An asset has become impaired if there is objective evidence of a reduction in future cash flows compared to original estimates as a result of specific events. The loss must be able to be determined reliably and must be correlated with actual and not merely expected events.
Impairment testing is conducted on a separate basis for financial assets that present specific evidence of impairment losses and on a collective basis for financial assets for which separate testing is not required or for which separate testing does not indicate that impairment had occurred. Collective testing is based on grouping financial assets into homogeneous risk classes in reference to the characteristics of the debtor/issuer, business sector, geographical area, collateral and other relevant factors.
For information regarding loans to customers and loans to banks, the reader is referred to the section concerning loans.
The impairment testing process for available-for-sale assets involves verifying whether there are any indicators that the assets may have become impaired and then determining the amount of any such losses.
Impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore of a qualitative nature, and, for equities, external indicators of a quantitative nature deriving from the market values of the company.
The following are factors considered relevant in the first category of indicators: the reporting of a net loss or a significant divergence from budget targets or targets set in long-term plans disclosed to the market, the announcement or commencement of bankruptcy procedures or restructuring plans and downgrading by a rating agency by more than two classes. In the second category, a significant or extended reduction in fair value below the amount at initial recognition is relevant. In further detail, a reduction in fair value is considered significant if it amounts to more than 30% and extended if it persists for a consecutive period of more than 18 months. If one of the above thresholds has been exceeded, an impairment loss is recognised on the security. If neither of the above thresholds has been exceeded, but there are other indicators of impairment, the impairment loss must also be corroborated by the results of specific analyses of the security and the investment.
The amount of an impairment loss is determined in reference to the fair value of the financial asset.
For information concerning the methods used to determine fair value, the reader is referred to the relevant section.

Price risk

General aspects
The price risk associated with the trading book is essentially generated by equities, positions in UCIs and units of funds of hedge funds.

Price risk management process and assessment methods
As in the case of interest-rate risk, the price risk associated with the trading book is assessed through the use of the VaR technique.

Exchange rate risk
Exposure to exchange-rate risk, determined using a method founded upon supervisory regulations, is negligible in extent.

General issues, management processes and assessment methods for exchange rate risk
Exchange-rate risk applies to transactions with customers and banks. Operational management of the Group's exposure is centralised with the Banca Popolare di Cividale Group, which conducts real-time monitoring of the exposure in various currencies, systematically hedging positions on the market as required to minimise the exposure to exchange-rate risk.

Foreign exchange risk hedging activities
All foreign currency positions generated by relations with Group customers are handled together by analysing open gaps (un-netted positions). Exchange-rate risk monitoring is founded upon predefined limits in terms of:
• maximum acceptable loss; and
• aggregate open position.

Liquidity risk

General issues, management processes and assessment methods for liquidity risk
The supervisory authority responsible for the lending and financial sector has identified liquidity risk as one of the risks to which banks are to devote the greatest attention, although said authority has not prescribed any regulatory requirements for such risk. However, the authority does provide important indications regarding the measurement of net financial position and possible tools to be used to mitigate liquidity risk.
Assessment of liquidity risk exposure aims to evaluate an entity's capacity in the near term (12 months) to respond to an outflow of such resources in the light of the maturity structure of its financial statements.
Liquidity is monitored daily by determining the maturity ladder, which shows the cumulative total cash balance during each of the forecasting periods.
This balance is the sum of cash inflows and outflows for each maturity bracket.
The Bank is currently in the process of adopting an exposure threshold structure. When such thresholds are exceeded, senior management will review the situation in order to determine the appropriate action to be taken on the basis of its Contingency Funding Plan.
In addition to the ordinary liquidity situation, the Group conducts simulations of adverse stress scenarios caused by forms of tension in the financial system generally or specific significant changes in the bank's financial aggregates.

Operational risk

General aspects, management processes and measurement methods for operational risk
Operational risk management is one component of the integrated risk management strategy that aims at containing the total risk level, including by preventing such risks from propagating and transforming. Operational risks, which constitute a highly heterogeneous class, are not typical of banking or business activity. The origin of these risks may be either internal or external, and they may extend beyond the company itself. The definition adopted by the Group, in line with supervisory regulations, identifies operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Such risks include losses resulting from fraud,

human error, business disruption, system unavailability, breach of contract and natural disasters. Operational risk includes legal risk but not strategic or reputational risk. Operational risk management activity is based on the following principles:

- improving overall operational efficiency;
- preventing the occurrence or reducing the likelihood of events that could potentially generate operational losses through appropriate regulatory, organisational, procedural and training actions;
- mitigating the expected effects of these events;
- transferring risks that the Group does not wish to retain through insurance contracts; and
- protecting the Group's reputation and brand.

The Risk Management Unit is responsible for measuring and assessing operational risk. It does so at a centralised level for all Group companies. In keeping with best practices, the approach adopted for managing operational risk takes a combined, bottom-up view of the four components identified by the prudential supervisory regulations for the advanced measurement approaches:

- internal operational loss data: the main component in the construction of a reliable, accurate operational risk management system;
- external operational loss data: given that not all types of events identified by international regulations arise or are statistically significant for every bank, international and domestic database consortia have been formed to compile the loss data of their members. In Italy, the Italian Banking Association has set up the Database of Operational Losses (DIPO), in which the Group participates as a "total group member." The data contained in DIPO allow banks to monitor changing operational loss trends in the Italian banking system by business line and sales channel, establish parameters for probability distributions, aggregate data by homogeneous banking groups for benchmarking purposes and supplement their own historical data;
- self-assessment: this process involves the production of a qualitative assessment of operational risks by gathering the opinions of the department and other unit heads and a representative sample of branch managers, arrived at by calculating the most significant variables using appropriate statistical techniques.

Risk is contained through regulatory, organisational, procedural and training actions. Problem areas are identified by analysing all of the data from the various sources. Those responsible for activities in which problems have been identified are required to provide further information and work with Risk Management to develop appropriate corrective actions. Some types of operational risk are mitigated using appropriate insurance contracts. In addition, the Group has a business continuity plan that sets out the principles, establishes the objectives and describes the procedures for managing all the corrective actions for reducing losses resulting from accidents or disasters to an acceptable level.

Legal risks

Risks connected with legal disputes involving the Banca Popolare di Cividale Group are constantly monitored by the Parent Company and by the individual banks and companies affected. If a legal and accounting analysis suggests an adverse outcome with a likely liability for damages, the Group makes as reliable an estimate of damages as possible and allocates a provision as a precaution. The following paragraphs describe the most complex and important legal disputes.

Disputes involving bond defaults

The insolvency of the Argentinean central and local governments from 2001 to 2003, as well as of major Italian companies such as Parmalat, Cirio and Giacomelli, triggered a series of disputes, including legal action, brought by customers who purchased these defaulted bonds. The Banca Popolare di Cividale Group has always been sensitive to criteria of fairness and economy, avoiding futile, wasteful litigation and taking into account the trends in legal interpretation that have emerged over time. Within this context, the Bank has frequently engaged in settlement negotiations in response to claims brought to its attention or in parallel with judicial action. In some cases, given the special circumstances of the dispute, the Bank has decided to pursue the matter in court. In all cases, however, based on an a priori analysis of the dispute and the type of bond involved, the Bank makes the necessary provisions.

Disputes involving revocatory actions

The recent bankruptcy reform, later amended by the so-called “corrective degree,” certainly limited the scope of the action performed by receivers pursuant to Article 67 of the Bankruptcy Law. However, there are still a number of revocatory actions governed by the pre-reform law, as provided for under the transitional regulations. In these cases, the Group uses careful, considered negotiations founded upon a thorough analysis of the actual assumptions on which the action is based, i.e. the satisfaction of both subjective and objective elements. Specifically, the Bank usually performs advance accounting assessments to determine the amount of risk and to make the necessary prudent provisions.

DETERMINING THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

General principles

Reclassified financial assets: carrying amount, fair value and effects on comprehensive income

Type of financial instrument	Previous portfolio	New portfolio	Book value at 31.12.2010	Fair value at 31.12.2010	Income components in case of no transfer (before tax)		Annual income components (before tax)	
					Valuation	Other	Valuation	Other
Units in collective investment undertakings*	HFT	AFS	534	534	11	-	11	-
Debt securities	HFT	LOANS	59.755	59.755	(163)	425	(163)	621
Total			**60.289**	**60.289**	**(152)**	**425**	**(152)**	**621**

* In the case in question, pre- and post-transfer income components coincide. Post-transfer income components have been allocated to a shareholders' equity reserve. Bank of Italy Circular No. 262 of 2005 requires inclusion among income components even where recognised through shareholders' equity.

Had the Group not opted to reclassify the financial assets in question, it would have recognised an additional €163 thousand in negative income components during the year, primarily as a result of changes in the fair values of the securities. Moreover, had no reclassification taken place, other positive income components amounting to €621 thousand would have not been recognised. This amount is mainly related to the amortised cost of the reclassified securities.

As at 30 June 2011, reclassifications come to €51 million euro by carrying amount. Of this amount:

- €50 million was classified prior to 1 November 2008 and thus in reference to the valuation of the assets concerned as at 1 July 2008, if already in portfolio at that date, or in reference either to the purchase price, if the purchase was transacted after 1 July 2008, or nominal value for loans disbursed after that date.

No securities were reclassified between portfolios in the first six months of 2011.

Fair value hierarchy

Accounting portfolios: breakdown by fair value levels

	31.12.2010			31.12.2009		
Financial assets / liabilities at fair value	L1	L2	L3	L1	L2	L3
1. Financial assets held for trading	19.870	11.292	-	36.998	9.151	-
2. Financial assets designated at fair value through pr	-	-	-	-	-	-
3. Financial assets available for sale	533.425	984	62.246	186.945	38.085	42.831
4. Hedging derivatives	-	3.416	-	-	4.529	-
Total	**553.295**	**15.691**	**62.246**	**223.943**	**51.765**	**42.831**
1. Financial liabilities held for trading	-	2.994	-	-	3.399	-
2. Financial liabilities designated at fair value through p	-	-	-	-	-	-
3. Hedging derivatives	-	2.472	-	-	10.528	-
Total	**-**	**5.466**	**-**	**-**	**13.927**	**-**

Segment disclosure

Segment reporting disclosures have been prepared in accordance with the provisions of IFRS 8, which requires that such disclosures be presented in a manner consistent with the way in which the entity's management makes operating decisions. Accordingly, the identification of operating segments and the disclosures presented in this section are modelled on the internal reports employed by the management in allocating resources to the various segments and analysing their performances.

Criteria for identifying and aggregating operating segments

In application of IFRS 8, the Group has identified operating segments on the basis of the corporate perimeters of the individual entities that comprise the Group. For disclosure purposes, the following operating segments have been grouped into disclosure sectors:

- ***Retail and Businesses***, the segment focused on the traditional banking business (primarily mortgage and medium-/long-term loans) that includes Banca di Cividale S.p.A. and NordEst Banca S.p.A.;
- ***Leasing***, the lease segment that includes the Group's leasing company, Civileasing; and
- ***Corporate Centre and Other***, consisting of the Parent Company, Banca Popolare di Cividale, which provides governance and support, ALM, proprietary and investment portfolio management, centralised treasury and foreign exchange operations, bond issuance, and capital management and funding for the entire Group. It also includes service and real-estate companies (Tabogan S.p.A.).
  All consolidation entries not specifically attributable to the other business segments have been allocated to this residual segment.

Businesses have been grouped into operating segments in a manner that reflects the similarity of their earnings profiles and of their sectors of operation in terms of the nature of products and processes, customer type, distribution methods and regulatory context.

Segments are categorised by classifying the various Group companies according to their core businesses. The results for each segment are drawn from the separate financial statements of the various entities or combined on the basis of the separate financial statements of the legal entities assigned to each segment, adjusted to reflect consolidated entries deemed immaterial to the results of each individual segment.

For the purposes of reconciling segment results and consolidated results, it should be emphasised that the measurement criteria for the segment disclosures presented in this section are consistent with those employed in internal reporting, as required by applicable accounting standards; they are also consistent with the accounting standards used in preparing the financial statements, inasmuch as they have been deemed best suited to furnishing a true and fair presentation of the Group's earnings and financial position.

Segment results – Income-statement data

RECLASSIFIED INCOME STATEMENT	30/06/2011				30/06/2010		
	LEASING	RETAIL & COMPANIES	CORPORATE CENTER	TOTAL	LEASING	RETAIL & COMPANIES	CORPORATE CENTER
Interest income and similar revenues	4.745	61.111	9.838	75.694	1.915	43.570	16.634
Interest expense and similar charges	(2.478)	(28.485)	(5.225)	(36.188)	(82)	(12.001)	(12.304)
Net fair value changes in hedge relationships	-	520	-	520	-	(1.133)	-
Dividends and net income (loss) of equity investments accounted for using equity method	-	78	837	915	-	190	352
FINANCIAL INCOME	**2.267**	**33.223**	**5.451**	**40.941**	**1.833**	**30.626**	**4.682**
Net commissions	(99)	10.803	162	10.867	(59)	10.224	140
Other operating income (net of recovered expenses)	124	(1.460)	3.386	2.050	149	2.252	144
Net trading income	-	27	-	27	-	(2.513)	(593)
Gains (losses) from purchase/sale of loans and financial assets	41	824	4.032	4.897	19	262	9
OPERATING REVENUES	**2.333**	**43.418**	**13.031**	**58.781**	**1.943**	**40.851**	**4.382**
Personnel expenses (net of recovered expenses)	(478)	(16.619)	(3.580)	(20.676)	(437)	(15.611)	(3.165)
Other administrative expenses (net of recovered expenses)	(519)	(10.898)	(645)	(12.062)	(393)	(10.411)	(599)
Net impairment/write backs on property, plant and equipment and intangible assets (excluding goodwill)	-	(622)	(165)	(787)	(13)	(767)	(97)
OPERATING COST	**(997)**	**(28.138)**	**(4.390)**	**(33.525)**	**(842)**	**(26.789)**	**(3.861)**
OPERATING INCOME	**1.336**	**15.279**	**8.641**	**25.256**	**1.101**	**14.062**	**521**
Charges/write-backs on impairment of loans	(1.018)	(12.980)	(535)	(14.534)	(600)	(10.397)	274
Charges/write-backs on impairment of other assets	-	(915)	-	(915)	-	140	-
Net provisions for risks and charges	-	(19)	-	(19)	(110)	539	-
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**318**	**1.365**	**8.106**	**9.789**	**390**	**4.344**	**795**
Tax on income from continuing operations	(188)	(1.913)	(1.597)	(3.698)	(170)	(1.835)	(669)
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	**130**	**(548)**	**6.509**	**6.091**	**220**	**2.509**	**126**
NET INCOME FOR THE PERIOD	**130**	**(548)**	**6.509**	**6.451**	**220**	**2.908**	**126**

Segment results – Balance-sheet data

ASSETS	30/06/2011				31/12/2010			
	LEASING	RETAIL & COMPANIES	CORPORATE CENTER	TOTAL	LEASING	RETAIL & COMPANIES	CORPORATE CENTER	TOTAL
Financial assets held for trading	-	31.161	-	31.161	-	46.149	-	46.149
Financial assets available for sale	18	157.246	439.391	596.654	18	209.602	58.242	267.862
Financial assets held to maturity	-	-	180.575	180.575	-	-	304.539	304.539
Due from banks	129	249.276	172.102	421.507	345	422.416	162.949	585.710
Loans to customers	333.385	2.387.491	377.851	3.098.727	329.799	2.337.833	365.179	3.032.811

LIABILITIES	30/06/2011				31/12/2010			
	LEASING	RETAIL & COMPANIES	CORPORATE CENTER	TOTAL	LEASING	RETAIL & COMPANIES	CORPORATE CENTER	TOTAL
Due to banks	12.323	1.105.741	81	1.118.145	23.749	684.195	198.808	906.752
Due to customers	7.972	1.289.069	1	**1.297.041**	6.170	1.405.097	-	1.411.267
Debt securities issued	-	641.510	938.877	1.580.387	-	813.500	778.071	1.591.571

Cividale del Friuli, 30 August 2011

Banca Popolare di Cividale S.c.p.A.

The Board of Directors

Certification of the condensed consolidated half-yearly financial statements pursuant to art. 81-*ter* of Consob Regulation 11971 of 14 May 1999

1. The undersigned, Lorenzo Pelizzo, in his capacity as Chairman of the Board of Directors, and Gabriele Rosin, in his capacity as manager responsible for preparing financial reports, of Banca Popolare di Cividale, hereby attest to, pursuant to art. 154-*bis*, par. 3 and 4, of Legislative Decree 58 of 24 February 1998:

   - the adequacy in relation to the characteristics of the company; and
   - the effective application of the administrative and accounting procedures for the preparation of the condensed consolidated half-yearly financial statements in the first half of 2011.

2. The undersigned also certify that:

   2.1 the condensed consolidated financial statements:

   a) have been prepared in accordance with the applicable international accounting principles recognised by the European Community in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) agree with the accounting books and accounting entries; and

   c) provide a true and fair view of the assets and liabilities, profit and loss and financial position of the issuer and of all companies included in the scope of consolidation.

   2.2 The interim report on operations includes a reliable analysis of the most significant events that occurred during the first six months of the year and their effects on the condensed consolidated half-yearly financial statements, together with a description of the main risks and uncertainties to which the Group will be exposed in the remaining six months of the year. The interim report on operations also includes a reliable analysis of the disclosure of significant related party transactions.

Cividale del Friuli, 30 August 2011

Chairman of the Board of Directors	Manager responsible for preparing the financial reports
Lorenzo Pelizzo	Gabriele Rosin

Independent Auditors' Report

ERNST & YOUNG

Auditors' review report on the interim condensed consolidated financial statements
(Translation from the original Italian text)

To the Shareholders of
Banca Popolare di Cividale S.c.p.A.

1. We have reviewed the interim condensed consolidated financial statements of Banca Popolare di Cividale S.c.p.A. and its subsidiaries (the "Banca Popolare di Cividale Group") as of June 30, 2011, comprising the balance sheet, the statements of income, comprehensive income, changes in shareholders' equity, cash flows and the related explanatory notes. Management of Banca Popolare di Cividale S.c.p.A. is responsible for the preparation of the interim condensed consolidated financial statements in compliance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to issue this review report based on our review.

2. We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. Our review consisted mainly of obtaining information on the accounts included in the interim condensed consolidated financial statements and the consistency of the accounting principles applied, through discussions with management, and of applying analytical procedures to the financial data presented in these consolidated financial statements. Our review did not include the application of audit procedures such as tests of compliance and substantive procedures on assets and liabilities and was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements as we expressed on the annual consolidated financial statements.

   With respect to the consolidated financial statements of the prior year and the interim condensed consolidated financial statements of the corresponding period of the prior year, presented for comparative purposes, reference should be made to our reports issued on April 9, 2011 and on August 27, 2010, respectively.

3. Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Banca Popolare di Cividale Group as of June 30, 2011 are not prepared, in all material respects, in compliance with the International Financial Reporting Standards applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Verona, August 30, 2011

Reconta Ernst & Young S.p.A.
Signed by: Marco Bozzola, Partner

This report has been translated into the English language solely for the convenience of international readers

Reconciliation between the restated consolidated financial statements and reclassified consolidated financial statements

Reconciliation between restated consolidated balance sheet and reclassified consolidated balance sheet

RECLASSIFIED BALANCE SHEET - ASSETS	Balance sheet - Assets	30/06/2011	30/06/2010
Cash and cash equivalents	10 Cash and cash equivalents	21.500	17.552
Financial assets held for trading	20 Financial assets held for trading	31.161	46.149
Financial assets available for sale	40 Financial assets available for sale	596.654	267.862
Financial assets held to maturity	50 Invetments held to maturity	180.575	304.539
Due from banks	60 Due from banks	421.507	585.710
Loans to customers	70 Loans to customers	3.098.727	3.032.811
Hedging derivatives	80 Hedging derivatives	3.416	4.529
Equity investments	100 Investments in associates and companies subject to joint	7.888	7.784
Property and equipment and intangible assets	120 Property and equipment	62.699	57.530
	130 Intangible assets	19.310	19.345
Other assets	140 Tax assets	32.455	40.834
	150 Non-current assets held for sale and discontinued operations	-	-
	160 Other assets	47.844	35.247
Total assets		**4.523.736**	**4.419.892**
RECLASSIFIED BALANCE SHEET LIABILITIES	**Balance sheet - Liabilities and shareholders' equity**	**30/06/2011**	**30/06/2010**
Due to banks	10 Due to banks	1.118.145	898.118
Direct funding from customers	20 Due to customers	1.297.041	1.411.268
	30 Debt securities issued	1.580.387	1.591.571
Financial liabilities held for trading	40 Financial liabilities held for trading	2.994	3.399
Hedging derivatives	60 Hedging derivatives	2.472	10.528
Other liabilities	80 Tax liabilities	8.189	13.288
	90 Liabilities associated with discontinued operations	-	-
	100 Other liabilities	116.749	75.811
Specific provisions	110 Employee termination benefits	5.701	5.781
	120 Provisions for risk and charges:	745	2.349
Shareholders' equity pertaining to minority interests	210 Minority interest (+/-)	63.184	76.222
Shareholders' equity	140 Valuation reserves	11.285	11.795
	170 Reserves	63.074	71.523
	180 Share premiums	196.529	190.220
	190 Share capital	50.788	49.902
	220 Net income (loss) for the period (+/-)	6.453	8.117
Total liabilities		**4.523.736**	**4.419.892**

Reconciliation between restated consolidated income statement and reclassified consolidated income statement

RECLASSIFIED INCOME STATEMENT	Consolidated income statement	30/06/2011	30/06/2010
Net interest income (including result of hedging)	30 Net interest income	39.506	37.732
	90 Fair value adjustments in hedge accounting	520	(1.133)
Dividends and net income (loss) of equity investments accounted for using equity method	70 Dividends and similar income	810	444
	240 Profit (loss) on equity investments	105	98
Net commissions	60 Net commission income	10.866	10.305
Other operating income (net of recovered expenses)	220 Other operating income (expenses)	6.662	4.863
	220 Other operating income (expenses) - net of recovered expenses	(4.613)	(2.318)
Net trading income	80 Net trading income	27	(3.106)
Gains (losses) from purchase/sale of loans and financial assets	100 Profit (loss) on disposal or repurchase of:		
	a) loans	41	170
	b) financial assets available for sale	4.827	55
	c) financial assets held to maturity	-	-
	d) financial liabilities	31	66
OPERATING REVENUES		**58.782**	**47.175**
Personnel expenses	180 G&A expenses: a) personnel expenses	(20.676)	(19.213)
Other administrative expenses (net of recovered expenses)	180 G&A expenses: b) other administrative expenses	(16.675)	(13.721)
	180 G&A expenses: b) other administrative expenses - recovered expenses	4.613	2.318
Net impairment/write backs on property, plant and equipment and intangible assets (excluding goc	200 Net impairment/write-backs on property, plant and equipment	(659)	(713)
	210 Net impairment/write-backs on intangible assets	(128)	(163)
OPERATING COST		**(33.525)**	**(31.492)**
OPERATING INCOME		**25.256**	**15.684**
Goodwill impairment	260 Goodwill impairment	-	-
Charges/write-backs on impairment of loans	130 Charges/write-backs on impairment of: a) loans	(14.534)	(10.724)
Charges/write-backs on impairment of other assets	130 Charges/write-backs on impairment of: b) financial assets available for sale	(873)	-
	130 Charges/write-backs on impairment of: c) financial assets held to maturity	-	-
	130 Charges/write-backs on impairment of: d) other financial transactions	(42)	140
Net provisions for risks and charges	190 Net provisions for risks and charges	(19)	429
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**9.790**	**5.529**
Tax on income from continuing operations	290 Tax on income from continuing operations	(3.698)	(2.674)
INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS		**6.092**	**2.855**
Income (loss) after tax from discontinued operations	310 Income (loss) after tax from discontinued operations	-	-
Minority interest	330 Minority interest	361	399
NET INCOME FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY		**6.453**	**3.254**