

# 2005 REPORT

AND

# FINANCIAL STATEMENTS

Banca Popolare – Volksbank

Banca Popolare dell'Alto Adige, Soc. Coop. a.r.l., (Cooperative with limited liability) Registered office and General Management, Via del Macello, 55, Bolzano, Tel. +39/0471/996111, Fax +39/0471/979188, [gsinfo@volksbank.it](mailto:gsinfo@volksbank.it), Tax Code/ VAT registration no. and Bolzano company register no. 00129730214, Bank Code 5856-0, Share Capital as at 31/12/2004, 333,410,188, adheres to the Interbank Deposit Protection Fund, Banca Popolare dell'Alto Adige Banking Group, entered in the Banking Groups' Roll. [www.bancopopolare.it](http://www.bancopopolare.it)

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## Summary of financial data

<b>Balance sheet (in millions of Euro)</b>	<b>31/12/05</b>	<b>31/12/04</b>	<b>variation</b>
Assets and liabilities	3,974	3,522	+12.83%
Total receivables	3,291	2,862	+15.00%
- trade receivables	3,205	2,820	+13.67%
Treasury securities held	538	510	+5.47%
Total payables	3,345	3,041	+12.95%
- due to customers			
* direct deposits	2,836	2,612	+8.61%
* indirect deposits	2,063	1,740	+18.60%
Shareholders' equity	382	340	12.52%
<b>Income statement (in millions of Euro)</b>	<b>31/12/05</b>	<b>31/12/04</b>	<b>variation</b>
Interest margin	105	97	+8.65%
Service margin	50	46	+8.07%
Administrative costs	91	83	+9.95%
- of which personnel costs	52	49	+5.75%
Net operating profit	64	60	+6.41%
Ordinary profit	32	29	+10.27%
Gross profit before taxes	36	29	+23.98%
Profit for the year	15	14	+3.39%
<b>Economic-financial indices and other data</b>	<b>31/12/05</b>	<b>31/12/04</b>	<b>variation</b>
Shareholders' equity/total assets	9.62%	9.64%	-0.21%
Solvency coefficients:			
- tier I regulatory capital/risk weighted assets	8.85%	8.98%	-1.45%
- total regulatory capital/risk weighted assets	10.52%	10.39%	1.25%
Profit for the year/average shareholders' equity	4.15%	4.46%	-6.95%
Profit for the year/total average assets	0.40%	0.43%	-6.98%
Average number of employees	888	874	+14
Shareholders	15,220	15,372	-152
Number of branches as at 31 December	98	94	+4

## Head Office and Branches

	Società cooperativa a responsabilità limitata (Cooperative with limited liability) Share capital and reserves as at 31/12/2005 € 376,101,756 Entered with the court of Bolzano at no. Gen. 1/10 Vat registration no: 00129730214
Registered office	39100 Bolzano, Via del Macello, 55
General management	39100 Bolzano, Via del Macello, 55 Telephone: (0471) 996111 Telefax: (0471) 979188 Swift: BPAAIT2B  39042 Bressanone, Portici Maggiori, 2 Telephone: (0471) 811111 Telefax: (0471) 811285
	Web site: <a href="http://www.bancopopolare.it">www.bancopopolare.it</a> e-mail: <a href="mailto:gsinfo@volksbank.it">gsinfo@volksbank.it</a>

<b>Registered offices</b>		
39100 Bolzano	Via Leonardo da Vinci, 2	Tel. 0471/996151
39100 Bolzano	Galleria Telser, 1	Tel. 0471/287047
39042 Bressanone	Portici Maggiori, 2	Tel. 0472/811213
39031 Brunico	Bastioni, 24	Tel. 0474/554122
39012 Merano	Piazza del Grano, 3	Tel. 0473/254111
32040 Tai di Cadore (BL)	Via Ferdinando Coletti, 11	Tel. 0435/505511
38100 Trento	Piazza Lodron, 31	Tel. 0461/261910
<b>Branches</b>		
38061 Ala (TN)	Via della Roggia, 10	Tel. 0464/674231
39057 Appiano sulla Strada del Vino	Via J. G. Plazer, 50	Tel. 0471/660076
38062 Arco (TN)	Via S. Caterina, 20	Tel. 0464/514335
32041 Auronzo di Cadore (BL)	Via Corte, 33	Tel. 0435/400355
32100 Belluno (BL)	Via Vittorio Veneto, 278	Tel. 0437/30078
32100 Belluno (BL)	Via Caffi, 1a-3	Tel. 0437/940005

39100 Bolzano – bank4fun	Via Alto Adige, 12-14-16	Tel. 0471/324971
39100 Bolzano	Piazza Mazzini, 2	Tel. 0471/270082
39100 Bolzano	Piazza Parrocchia, 4	Tel. 0471/976900
39100 Bolzano	Via Galvani, 39	Tel. 0471/935039
39100 Bolzano	Via del Macello, 55	Tel. 0471/996422
39100 Bolzano	Via Resia, 130	Tel. 0471/204311
39100 Bolzano	Via Roma, 45	Tel. 0471/916555
39100 Bolzano/Aslago	Via Claudia Augusta, 5	Tel. 0471/271766
39100 Bolzano/Don Bosco	Via Sassari, 4 b/c	Tel. 0471/915867
39100 Bolzano/Viale Druso	Viale Druso, 64	Tel. 0471/912911
39100 Bolzano/Zona Europa	Via del Ronco, 15	Tel. 0471/921344
38051 Borgo Valsugana (TN)	Via Hippoliti, 11/a	Tel. 0461/757430
39042 Bressanone	Via Brennero, 2	Tel. 0472/838010
39042 Bressanone/Millan	Via Sarnes, 1	Tel. 0472/833324
39042 Bressanone/Tiniga	Via Rio Scaleres, 26	Tel. 0472/837722
39042 Bressanone/Zona Industriale	Via Julius Durst, 28	Tel. 0472/811305
39031 Brunico/S. Giorgio	Via Valle Aurina, 30	Tel. 0474/551105
39031 Brunico/Stegona	Via S. Nicolò, 14	Tel. 0474/553005
39030 Cadipietra	Cadipietra, 105	Tel. 0474/652077
39052 Caldaro sulla strada del vino	Piazza Principale, 13	Tel. 0471/963553
39052 Caldaro sulla strada del vino	Via Stazione, 10	Tel. 0471/963729
39032 Campo Tures	Via Municipio, 4	Tel. 0474/678175
32020 Cencenighe (BL)	Via XX Settembre, 107	Tel. 0437/580242
39030 Chienes	Via Chienes, 1	Tel. 0474/565330
39043 Chiusa	Piazza Tinne, 5	Tel. 0472/847440

38023 Cles	Piazza Navarrino, 16/17	Tel. 0463/600038
32043 Cortina D'Ampezzo (BL)	Largo delle Poste, 49	Tel. 0436/868326
39034 Dobbiaco	Viale S. Giovanni, 23	Tel. 0474/972010
32040 Domegge di Cadore (BL)	Via Roma, 48	Tel. 0435/520016
32040 Dosoledo (BL)	Piazza Tiziano, 2	Tel. 0435/68888
39044 Egna	Largo Municipio, 22	Tel. 0471/820070
32032 Feltre	Via Monte Grappa, 28	Tel. 0439/840443
39050 Fiè allo Sciliar	Via Bolzano, 3	Tel. 0471/725621
38013 Fondo	via Cesare Battisti, 39	Tel. 0463/835238
32012 Forno di Zoldo (BL)	Via Roma, 70/b	Tel. 0437/787290
39045 Fortezza	Via Brennero, 7/c	Tel. 0472/458666
39010 Gargazzone	Vicolo dei Campi, 2	Tel. 0473/291550
39030 La Villa/La Ila	Via Colz, 56	Tel. 0471/847404
39021 Laces	Via Stazione, 1/B	Tel. 0473/720130
39055 Laives	Via Kennedy, 123	Tel. 0471/950450
39011 Lana	Piazza Tribus, 2	Tel. 0473/561499
39023 Lasa	Via Venosta, 44	Tel. 0473/626474
38015 Lavis	Via Rosmini, 65	Tel. 0461/245559
39043 Lazfons	Paese, 18	Tel. 0472/545288
39040 Luson	Vicolo Paese, 19	Tel. 0472/413739
39024 Malles Venosta	Via Gen. I. Verdross, 40/c	Tel. 0473/831745
32026 Mel	Via Tempietto, 33/a	Tel. 0437/548102
39012 Merano	Corso Libertà, 124	Tel. 0473/210737
39012 Merano	Via Goethe, 74/a	Tel. 0473/221444
39012 Merano	Via Matteotti, 43	Tel. 0473/230565
39012 Merano	Via Monte Tessa, 34	Tel. 0473/222588
39012 Merano	Via Roma, 278	Tel. 0473/235435

38017 Mezzolombardo (TN)	Via Alcide Degasperì, 4	Tel. 0461/604150
38035 Moena	Piazza Italia, 16	Tel. 0462/565243
39035 Monguelfo	Via Parrocchia, 13	Tel. 0474/944222
38065 Mori	Via della Terra Nera 48/d	Tel. 0464/919036
39025 Naturno	Via Principale, 37/b	Tel. 0473/667358
39056 Nova Levante	Via Roma, 8	Tel. 0471/613535
39040 Ora	Via Stazione, 8	Tel. 0471/811224
39046 Ortisei/Urtijëi	Piazza San Durich, 3	Tel. 0471/797750
32040 Padola (BL)	Piazza San Luca, 22	Tel. 0435/470103
38057 Pergine (TN)	Viale Venezia, 44	Tel. 0461/534764
32014 Ponte nelle Alpi (BL)	Viale Roma, 87	Tel. 0437/981675
39040 Racines	Stanghe, 18	Tel. 0472/756655
39037 Rio di Pusteria	Via Katharina Lanz, 50	Tel. 0472/849741
38068 Rovereto	Via G. M. Della Croce, 2	Tel. 0464/422989
39015 San Leonardo in Passiria	Via Passiria, 14	Tel. 0473/656177
39030 San Lorenzo di Sebato	Via Josef Renzler, 17	Tel. 0474/474362
32045 San Pietro di Cadore (BL)	Via P.F. Calvi, 16	Tel. 0435/462022
32035 Santa Giustina	Via Feltre, 17	Tel. 0437/888499
32045 Santo Stefano di Cadore (BL)	Via Venezia, 30	Tel. 0435/420380
39017 Scena	Piazza Arciduca Giovanni, 7	Tel. 0473/945520
32036 Sèdico (BL)	Via Cordevole, 2/b	Tel. 0437/852072
39048 Selva di Val Gardena/Sëlva	Via Mëisules, 155/a	Tel. 0471/794207
39028 Silandro	Via Covelano, 10	Tel. 0473/621388
39040 Siusi	Via Sciliar, 2	Tel. 0471/707200
38079 Tione	Via Circonvallazione, 56	Tel. 0465/326208

38100 Trento	Via S. Croce, 44	Tel. 0461/263276
38100 Trento	Via Brennero 302/a	Tel. 0461/420043
32040 Valle di Cadore (BL)	Via XX Settembre, 76	Tel. 0435/500929
39037 Valles	Casa della Cultura, 116	Tel. 0472/547141
39030 Vandoies	Via J. A. Zoller, 8	Tel. 0472/869149
39040 Varna	Via Brennero, 101	Tel. 0472/200241
39040 Velturmo	Paese, 34	Tel. 0472/855233
39049 Vipiteno	Via Città Nuova, 22/a	Tel. 0472/761900

## Corporate Officers 2005

<b>Board of Directors:</b>		
	Mr. Zeno Giacomuzzi (*)	Chairman
	Mr. Arno Eisendle (*)	Vice chairman
	Mr. Lorenzo Salvà	Vice chairman
	Mr. Marcello Alberti	
	Mr. Hansjörg Bergmeister (*)	
	Rudolf Christof (*)	
	Werner Gramm	
	Mr. Alessandro Marzola	
	Mr. Bernard Niederfriniger	
	Michael Seeber	
	Mr. Gregor Wierer	
	Oskar Zorzi (*)	
<b>Board of Statutory Auditors:</b>	Mr. Franz Vigl	Chairman
	Mr. Joachim Knoll	
	Mr. Günther Überbacher	



	Mr. Franz Defatsch	Substitute Auditor
	Mr. Hermann Steiner	Substitute Auditor
<b>Board of Arbitrators:</b>	Mr. Max Bauer	Chairman
	Mr. Gino Bernardi	
	Walter Kompatscher	
	Hansjörg Cimadom	Substitute member
	Richard Stampfl	Substitute member
<b>General Management:</b>		
	Mr. Johannes Schneebacher	General Manager
	Mr. Paul Zanon	Assistant General Manager

(\*) Members of the Executive Committee

## **Convening of the Shareholders' Meeting**

### **Ordinary Shareholders' Meeting on 11 April 2006**

#### **Agenda of the ordinary shareholders' meeting:**

- 1 Reports by the Board of Directors and by the Board of Statutory Auditors for the 2005 financial year; presenting of the financial statements as at 31/12/2005 and proposal for the allocation of net profit; subsequent resolutions;
- 2 Determination of the share issue price, based on art.6, paragraph 1 of the articles of association.
- 3 Election of a total of four Board Members according to the terms of art.28 of the articles of association.
- 4 Ratification of the assignment of tasks to an independent auditing company by the Board of Directors.

## **Resolutions of the Shareholders' Meeting**

## **Directors' Report**

**The International Macroeconomic Scenario**

**The National Economy**

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## **The Global Economy**

The extreme increase in oil prices only had minor repercussions on the global economy in 2005, thanks mainly to the consistently strong economic situation in the United States and in China in particular. Instead, the Eurozone, once again recorded only a slight increase in Gross Domestic Product (GDP).

GDP increased overall by 4.3%, following a 5.1% rise in the previous year, although global trade has provided essential support for an economic recovery.

However, it has to be stressed that the price of oil is considered the greatest risk to the future growth of the global economy.

Rates of inflation all over the world remained steady at quite a low level, also conditioned by greater aggression of the competition in labour markets, which recorded minor wage increases.

The Chinese national economy continued its brilliant success, with GDP increasing by 9.2%, another rise of almost 2%. In July 2005 the Yuan was revalued, and being linked to the American dollar, led to minor fluctuations in exchange rates.

All other emerging countries in south-east Asia found it difficult to continue the extremely strong growth enjoyed in previous years, especially those countries highly dependant on oil which have had to contend with price increases. India, with more than 1 billion inhabitants, almost equal to that of China, has an increasingly important role in the global economy: already today, human capital consisting of highly trained and highly educated individuals provide essential support in the achievement of objectives.

In the past year, Russia has profited in particular from its vast oil and gas fields, sectors which account for roughly one third of annual GDP. For this reason, the Russian economy is even more dependent on the growth of the energy market.

Germany strengthened its position as export leader: the surplus of the foreign trade balance reached a new high in 2005 of roughly 160 billion Euro.

The Eurozone was characterised by a weak propensity to consume by families and also the willingness to invest shown by companies was cautious. The overall increase in GDP was recorded at an unsatisfactory 1.3%. The national budget situation is ever more critical and almost one half of countries did not meet the 3% of GDP deficit threshold.

## **Prospects for 2006**

Despite high oil prices, growth of the global economy should not slow down. Whilst in the United States, the economy could show some signs of slow down, the Eurozone could still see some growth thanks to the expansion into the East. In the OECD area (consisting of around 30 member countries) growth of roughly 3% has been forecast.

The labour market situation will improve only slightly, so we will have to face up to another high level of unemployment.

In the Eurozone, it will be more difficult to meet the 3% of GDP deficit threshold. According to the forecasts, the increase in the retail prices index - compared to 2005 - will not undergo any major changes staying at around 2%.

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## **The National Economy**

The situation in Italy in 2005 was characterised by modest economic growth, by enormous national debt, recorded at more than 1,500 billion Euro (roughly 109% of GDP), by weak demand on the domestic market and by a continuous decrease in competitiveness, especially in regards to exports.

Furthermore, the Italian trade balance figures are simply disastrous: at minus 10 billion Euro it is ten times more than in 2004 and is the worst result since the mid-Eighties.

Once again, the importing of oil was a determining factor in this enormous deficit.

Also, growth in industrial production left a lot to be desired recording a 1.8% rise compared with the previous year. Industrial production has overall marked the worst situation of the last five years. The balance of payments reached a new peak of almost minus 20 billion Euro, following minus 12 billion Euro in 2004.

Only the labour market recorded slight improvement: 1,726,000 unemployed, equal to 7.4%, compared to roughly 22.5 million employed.

The inflation rate - as in the previous year - was roughly 2%.

## **Prospects for 2006**

The market climate remained subdued and will not have any positive impact on sales and especially on the now weak domestic demand.

The general economic conditions which could drive necessary and expected growth still do not exist. The current year has proved difficult and will not show any economic improvement worthy of note.

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## **The Local Economy**

According to a report published in 2005 by the Institute of economic research at the Bolzano Chamber of Commerce, the forecast of a slowdown in the economy in Alto Adige proved correct. The main reason being, that aside from the levelling off of the global economy, in particular the two most important commercial partners of Alto Adige - Germany and the domestic market – achieved extremely low rates of growth.

Despite all this, the number of people in employment rose, reaching 235,000, with a modest unemployment rate of 2.5%.

Foreign trade stagnated in terms of exports whilst imports actually recorded a small decrease.

The number of companies entered in the relative register increased slightly: a total of 40,000 companies (excluding the agricultural sector).

With regard to **trades**, the expected improvement in profitability was again more optimistic, and in fact increases in the number of orders were recorded. Sales prices and the employment situation instead remained static at 2004 values.

In the **construction** sector the general situation in terms of orders remained satisfactory. The large companies in the sector imposed themselves more in neighbouring regions and abroad. The increase in prices presented another problem, which for some time had a negative impact on the profits of entrepreneurs and which is highlighted by a continuous decline in contracts.

The **agricultural** sector recorded a smaller apple and grape harvest. The quality did, however, continue to meet the demands of the market. Nevertheless, increased competition – from Eastern Europe and from overseas – didn't leave room for an increase in prices. In the milk-dairy sector it was forecast that the strong profit level could be maintained.

**Wholesale trade** is one of those sectors which have seen the greatest growth in recent years. The situation in the food sector, in furniture, household articles and in metal and iron products was particularly strong. Growth was weak in the wood division, in building materials as well as in machinery.

**Retail trade** showed positive signs, with the food sectors and supermarket and mini-market sectors in particular recording the best results. In the "vehicles" sectors – "trade and repair", "furniture and household articles" and "textiles and clothing" the situation improved.

In the **services sector** the outlook was consistently positive: in regards to the employment situation, this sector is still the one which recorded the biggest growth. High levels of turnover were maintained and even more new customers were acquired, also from outside provincial borders.

In the summer months **tourism** again enjoyed a record year in terms of arrivals and overnight stays. Again, there was a sharp slowdown in luxury expenses. Tourist agencies remain confident, forecasting the same results achieved last season for the year in progress. Turnover was excellent.

## **Forecasts and expectations for 2006**

According to a survey on the economic situation, the local economy can look ahead with confidence to the next six months: the volume of business and employment figures should rise again. Even profitability is for the most part considered satisfactory.

Nevertheless, small companies in particular have to struggle against price pressure and greater competition, whilst consumer habits and pastimes also hold an influence.

Overall however, expectations are mostly positive and we will start from a better economic position than the country as a whole.

## **The economic situation in Trentino**

For Trentino, 2005 was a year of greater stability compared to the national average: on one hand there is a well integrated and diversified production structure which is also characterised by a strong propensity for innovation and high productivity of labour; on the other hand the province maintained a consistent level of public spending.

Companies' order portfolios showed positive signs, whilst employment and the total number of hours worked remained relatively static.

Other strong points were the quality of the higher education and research systems, in a pleasant living environment characteristic of future well-being. There was some concern for exports which did not reach satisfactory levels, a negative aspect concerning weak growth in terms of size of companies who are lacking in the field of research.

## **The economic situation in the Province of Belluno**

Figures recorded by the Companies registry can attest to the local entrepreneurial capacity, even in a difficult year for the economic life of the Province of Belluno. The total number of units was roughly 16,000, representing growth of 0.60% compared with the previous year.

More specifically, of particular concern was the constant decrease of sales in the optical sector, where the smaller companies suffered greatly whilst the large companies continued to grow, even at international level.

From an economic viewpoint, the situation at the end of 2005 saw a mild trend reversal for the Belluno industry, after the first part of the year was spent in a climate of uncertainty and under the weight of the international economic situation, including growing competition from the new economic powers.



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## **Bank Activities**

Dear Shareholders,

In 2005 our bank had to face an ever increasingly difficult market also due to stiff competition in the sector. The interest rate spread fell further and expenses rose without exception.

Even if the result reached is considered good it is above all due to an increase in volumes and the high commitment of our employees who have more than compensated for this unfavourable trend.

So above all amounts due from customers have risen above average, a sign of a still strong willingness to invest by many customers, entrepreneurs and individuals.

Instead the increase in direct deposits was not as high. Indirect deposits increased more, i.e. securities administered on behalf of customers, asset management, funds and insurance products.

We were able to fully achieve objectives set for 2005: in the segment of loans to customers the objective was even exceeded. The percentage growth compared to the previous year amounts to 13.7%; in absolute terms it is equal to 386 million Euro.

For direct deposits we recorded an increase of 100 million Euro (+ 3.8%); for indirect deposits growth levelled off at 324 million Euro (+ 18.6%), again in comparison with 2004.

So for the first time the total amount of funds administered for customers exceeded the threshold of eight billion Euro:

the situation of all deposits and amounts due from customers reached 8,105 million Euro as at 31 December 2005, with an increase of 934 million Euro (13%) compared to the end of 2004.

At this point we would like to call your attention to a milestone that our bank will celebrate in spring this year which is the hundredth branch located Valdobbiadene in the province of Treviso, which is also the first branch outside our traditional customer basin (provinces of Bolzano, Trento and Belluno).

With the opening of this new branch in Valdobbiadene, we are convinced that we have taken the right street for future development in a profitable territory which is in the immediate vicinity of our branches in the south of Belluno.

### **Deposits**

Customer deposits show a satisfactory trend. The highest increases were recorded in bonds and current accounts. The amount of certificates of deposit changed only slightly, whereas savers still tend to re-convert savings accounts, the traditional form of savings, into other forms of investment.

Direct deposits, including reverse repurchase agreements into securities, amounted to 2,785 Euro at the end of the year.

Considering own bonds, sold to banks, we recorded an increase of 7.7%.

Total deposits are broken down as follows:

(in thousands of Euro)

<b>Technical type</b>	<b>31/12/05</b>	<b>31/12/04</b>	<b>Change %</b>
- customer deposits by traditional types:	2,711,317	2,611,503	+3.82

savings and current accounts, certificates of deposit, bonds etc.			
- reverse repurchase agreements on securities	74,150	90,126	-17.73
- own bonds sold to banks	125,000	--	--
<b>Total</b>	<b>2,910,467</b>	<b>2,701,629</b>	<b>+7.73</b>

With an amount of 1,282 million Euro, corresponding to a percentage of about 47.3%, bonds make up the most important item, followed by current account deposits, amounting to 1,028 million Euro, equal to about 37.9%. Savings accounts amounted to 321 million Euro; their percentage compared to overall savings amounted to 11.8%.

Third-party administered securities recorded an increase for a total of 339 million Euro compared to 2004, equal to 20.6%.

At year-end the item reached an amount of 1,989 million Euro.

During the previous year, investors regained more trust in financial markets. As a consequence a portion of direct deposits was again converted to indirect investment forms with a clear preference of customers for asset management and funds.

Market interest rates remained the same until the end of November and then rose in the last two months of the year also following an increase in interest rates by the European Central Bank. At year-end they were slightly higher compared to those at the beginning of the year.

## Loans

Also during the past financial year we found intense demand for credit and in the trend of our growth policy the amount of authorized and used credit rose considerably.

The highest increases were recorded in the current account and house loans segments.

The over all situation of loans reached 3,205 million Euro, 386 million Euro (13.7%) over the previous year, with a loan/deposit ratio of about 113%.

The increases were mainly achieved due to higher sales of products related to credit such as current accounts (+ 15.3%), house loans and various financing (+ 16.7%).

Within our offer of products, house loans, in proportion, are still at first place with a share amounting to 45.8%, followed by credit lines on current accounts with 39.4%.

The breakdown of the volume of loans by financial segment shows the following:

Form of cash loan	Figures in thousands of Euro	Percentage share
Individuals	1,108,736	34.6
Manufacturing industry	857,901	26.8
Commerce	347,075	10.8
Services	326,744	10.2
Public entities, financial and insurance sector	564,927	17.6
<b>Total</b>	<b>3,205,383</b>	<b>100.00</b>

The following table is outlines the structure and trend of our credit portfolio by single segments:

Technical type of loan	31/12/05	31/12/04	Change %
Current accounts	1,262,613	1,095,418	+15.26
Loans in foreign currency and in Euro abroad	166,394	192,034	-13.35
Discounted portfolio	701	1,164	-39.78
Portfolio customer STC - non-liquid balances	72,788	81,185	-10.34
House loans and other forms of finance	1,469,597	1,258,865	+16.74

Amortization and depreciation accounts	144,441	116,118	+24.39
Non-performing loans	43,539	38,580	+12.85
Repurchase agreements	803	162	+395.68
Current account cheques drawn on bank	--	--	--
Securities lending	--	--	--
Transactions using third-party funds in administration	44,400	36,176	+22.73
Other loans	107	109	-1.83
<b>Total</b>	<b>3,205,383</b>	<b>2,819,811</b>	<b>+13.67</b>

### Doubtful loans

The ratio between net non-performing loans and cash loans amounts to 1.36% (2004: 1.37%), the ratio between gross non-performing loans and cash loans amounts to 2.13% (2004: 2,19%).

In addition to the valuation on non-performing loans, made analytically for each item, a similar specific valuation was made for "problem loans", meaning the items where the customers go through objective temporary difficulties for repayment, which can be overcome, thus they are kept under "outstanding loans".

Furthermore, valuation was carried out on "restructured loans".

The following table shows trends of doubtful loans, in relation to non-performing loans, problem loans, restructured loans, loans overdue by over 180 days and outstanding loans:

(in thousands of Euro)

	31/12/05	31/12/04	Change %
A) Non-performing loans			
Gross amounts	69,076	62,331	+10.82
less: adjustments for doubtful loans	-25,537	- 23,751	+7.52
<b>Net amounts</b>	<b>43,539</b>	<b>38,580</b>	<b>+12.85</b>
B) Problem loans			
Gross amounts	110,441	65,698	+68.10
less: adjustments for doubtful loans	-7,960	- 5,031	+58.22
<b>Net amounts</b>	<b>102,481</b>	<b>60,667</b>	<b>+68.92</b>
C) Restructured loans			
Gross amounts	5,020	3,649	+37.57
less: adjustments for doubtful loans	-500	--	--
<b>Net amounts</b>	<b>4,520</b>	<b>3,649</b>	<b>+23.87</b>
D) Loans overdue by more than 180 days			
Gross amounts	24,395	--	--
less: adjustments for doubtful loans	--	--	--
<b>Net amounts</b>	<b>24,395</b>	<b>--</b>	<b>--</b>
E) Outstanding loans			
Gross amounts	3,030,448	2,717,415	+11.52
less: adjustments for doubtful loans	--	- 500	-100.00
less: adjustments for inherent risk, determined as a lump sum	--	--	--
<b>Net amounts</b>	<b>3,030,448</b>	<b>2,716,915</b>	<b>+11.54</b>
<b>Total net amounts</b>	<b>3,205,383</b>	<b>2,819,811</b>	<b>+ 13.67</b>

As described in the notes to the accounts (part B, paragraph 7.3) the fund in place as at 31/12/2004 with an amount of 145,286 Euro was reduced by 129,767 Euro, against a valuation of guarantees no longer necessary. After the allotment of 7,500 Euro the fund now has a balance of 23,019 Euro.

It should also be specified that no additional adjustments were carried out due to a lack of objective and subjective conditions, or on exposures against countries considered at risk, or against particular sectors considered susceptible to inherent doubtful loans.

In conclusion, the Board of Directors, taking into consideration the valuation made according to the principle of prudence and in consideration of the low concentration of the loan portfolio (see also Notes to the accounts on great risks), feels that the whole of potential risks of loans in place is to be considered sufficiently covered.

### **Qualitative information on credit risk**

The systematic surveillance of credit risk, on the one hand based on traditional tools and on the other based on the SEAC procedure (Customer Analysis System), is performed through the loan control service, which reports to the Financial Services Management, but from an operational standpoint is subordinate to the Internal Loan Committee (office division). All resolutions concerning risk positions (classification, loan requests, review, transfer to NPL) are the responsibility, according to the entity of the position, of the Internal Loan Committee, of the loan Committee or of the Board of Directors, preceded by assessments made by the Loan Control Service.

2005 was characterized by diversified development, i.e., on the one hand, it featured a decrease in the watch-list positions and, on the other, a high increase, both in quantity and in volume, of problem loans. The quantitative increase of problem loans, in particular, like the growing number of overdue loan instalments, shows that also the private segment is having increasing solvency difficulties.

Also gross non-performing loans increased last year, though less than loans.

At a consortium level, preparatory measures were implemented in order to apply the Basel Accord, which focused on the introduction of a credit rating programme (TCQ – Total Credit Quality): in the year 2004 to grant loans to companies the first factor of this internal rating system was introduced, the so-called "issue form"; the second factor, the so-called "trend form" was also activated.

### **Risk Management**

Last year, Banca Popolare – Volksbank intensified efforts in the implementation of risk management procedures, started up already in the previous years, in order to comply with legal provisions and supervisory requirements which will be introduced after the Basel Accord ("Basel 2"), and to ensure – through more reliable measurement and risk calculation systems – the provision of the countermeasures in place to reduce these risks and therefore to provide a positive contribution to the profitability of our company.

Below is an outline – divided into three risk areas – on the state of development of the project and on the main features of the methods used by our bank.

#### **1) Credit risk**

The activities involved in the project "Total Credit Quality – TCQ" – started up in last years and continued in 2005 with the purpose of creating and managing an internal rating system – make it possible to place all new loan requests in a standard merit class after dividing into two macro-segments, private customers and companies (small, medium and large).

The system enables to perform, through a group of indices, an analytical valuation which, in fact, consists in a customer rating.

A focal point in 2005 was the attribution of a rating on all the loans outstanding, along with an analysis of the information gathered, again under the TCQ project, and the valuation of indices determined (as probability of insolvency and estimate of losses); this phase shall continue and actually it will be improved in 2006, considerably improving operational procedures for what concerns loan transactions both in qualitative (thanks to objective indices) and in quantitative terms (thanks to standard and automated checks).

Quarterly reporting to the Board of Directors of the bank, introduced in 2003 and then consolidated, took on an important role in checking credit risk. An integral part in credit risk management is the segmentation of the credit

portfolio based on size and financial segment as well as the standard measuring system and limitation of risks in institutional finance activities.

The counterparty risk (or credit risk) is the risk of total or partial insolvency of a financial counterparty, or the risk of the worsening of its solvency, thus resulting in danger of total or partial loss of our loans in principal or interests. It is therefore a question of constantly monitoring correspondents/issuers with the main objective to prevent losses. The system provides for an initial attribution of a credit line whose amount should be in line with the official rating of the counterparty.

In case of a correspondent bank without an official rating, an internal rating attribution is performed, in order to allow for a more accurate granting of credit lines. The constant and accurate control of the observance of these limits has in the meantime consolidated a routine activity.

## 2) Market risk

The market price risk is defined as the risk of loss on financial instruments from possible fluctuations in rates, volatility, exchange rates and stock market indices, with the possibility that each financial instrument is exposed to more than one of these risks.

The Banca Popolare – Volksbank measures its market risks in the trading book as variations in value due to market fluctuations.

### Value-at-Risk

The Banca Popolare – Volksbank adopted a system for measuring and managing market risk based on the Value-at-Risk (VaR) method, a system of risk limits and constant monitoring of risk positions.

To calculate VaR, la Banca Popolare – Volksbank uses the model of variance-covariance, without taking into account co-relations. Volatility figures are provided daily by the investment bank J.P. Morgan.

The VaR method calculates the maximum potential loss of a portfolio during a certain timeframe and with a certain probability, under normal market conditions.

Value-at-Risk is a single measurement system applicable to all types of markets and all financial instruments, thus allowing a comparison of risk figures obtained from a time and daily profitability standpoint.

The calculation of possible losses is based on historical market figures. VaR inside the trading book is expressed based on a holding period of one day (daily VaR) and a confidence level (probability) of 99%.

In order to limit market price risk for the entire trading book, the Board of Directors of our bank set the risk limits for the year 2005 as follows: a VaR with a holding period of 1 day and confidence level of 99%, amounting to 1.39 million Euro.

In order to prevent exceeding authorized risk limits, a standard daily reporting system was implemented.

### Sensitivity analysis

The interest rate risk of the bond portfolio is also measured and quantified with a sensitivity analysis model (Basis Point Value) and compared to figures from the VaR method.

The effects on the trading portfolio of a parallel increase in market rates of a basis point are quantified.

When determining and managing interest rate risks, Banca Popolare – Volksbank uses current value methodology. The calculation of current value of cash flow is performed using the market rates of the corresponding rate curve.

### Scenario analysis

Since the analysis through VaR measures risk under normal market conditions, a scenario analysis was also introduced which simulates and measures potential losses under extreme market conditions.

This scenario analysis rests on a rate shock of 2% for all maturities and on a crash of share prices of 30% in European stock exchanges.

In this way, as at 31/12/2005, the trading portfolio of Banca Popolare – Volksbank shows a worst case figure of about 6.8 million Euro.

The Value-at-Risk of the trading book of Banca Popolare – Volksbank is mainly composed of interest rate risk and market price:

Value-at-Risk* in Euro	Bonds	Investment funds	Third parties' management	Total
Value-at-Risk as	90,060	143,887	60,428	294,375

at 31/12/2005				
Minimum Value-at-Risk in 2005 (26/01/2005)	37,141	60,880	59,668	157,689
Maximum Value-at-Risk in 2005 (12/07/2005)	109,068	342,706	121,389	573,163
* 1 day holding period, 99% confidence level				

### 3) Operational Risk

Unlike credit and market risks, which the bank assumes against remuneration of the risk, operational risks may generate losses, at times also considerable, without the bank receiving any remuneration: these risks are inherent in processes and products of the bank.

For these reasons the bank has to study the causes that may result in operational losses and detect and measure systematically the events with the objective of limiting and reducing the risks in question.

Our bank – in line with the Basel Committee and the banking system – defines operational risk as “the risk of loss from errors or inadequacies in internal processes, human resources and systems or deriving from external events”.

Basically, they include all the risks that are not defined as credit risks and market risks.

This category includes legal risks, but not strategic, reputational and system risks. Therefore, in the definition of operational risks, opportunity risks (deal fall-through), damage to image and risks that involve the entire banking system (e.g. introduction of retroactive laws: anatocism etc.) are not included.

For the last three years our bank has used a system for detecting and measuring operational losses – as a first step towards a more in-depth knowledge and analysis of these phenomena – with the purpose of improving management of potential sources of risk that may undermine company stability.

This system follows a similar initiative that on a national scale was fostered by the Italian Banking Association (ABI). With the project “DIPO – Italian database of operational losses” – ABI is attempting to inform banks on how to implement these procedures and create a national databank that would allow banks to obtain more in-depth and important statistics and information.

The procedure is based on an internal information system that detects all events in the category of operational losses, starting from the minimum threshold of 50 Euro and forwards them to a central collection point located in the risk management operational unit .

The collection and systematic analysis of this information last year provided valuable inspiration and suggestions to assess and optimize processes and activities of the bank.

### Distribution channels

#### The branch concept

The branch is the centre for consultancy and personal management of our customers: this flexible concept is reflected in the space created for our branches, and can be adapted to new needs.

Direct contact with our customers is important for us. With the additions made to the self-service area in all the branches, we answer the needs of our customers for what concerns possible innovative channels – in this way you can access a part of our services 24/7.

Among our strengths are the strong orientation to the customers and adjusting our distribution activities to the real needs of customers. Our commercial concepts, which are constantly under development, aim at personal consultancy, oriented towards customer needs. The high quality of our consultancy and of our services is guaranteed by continuing education and training of our employees and through consulting tools.

When building our product range we are oriented towards the needs of our customers. We are always open to new technologies. We offer our customers products and services that are always on the cutting edge. Our virtual

banking provides customers with new communication channels. For what regards innovative channels, the new feature in 2005 was SMS banking, which at any time sends important information to customers directly to their mobile phones and email addresses.

## **New branches**

### **Trentino**

With the opening of branches Trento Nord, Mori and Fondo in 2005 we have expanded our commercial structure in the province of Trento, which amounts to 15 branches. The logo “Banca Popolare – Volksbank” is established and encourages us to continue expansion.

In 2006 we are planning on opening three more branches in the area of Trento.

### **Belluno/Treviso**

In 2005 we inaugurated the branch in Santa Giustina. Our commercial network in the province of Belluno currently amounts to 18 branches. Soon we will open in Valdobbiadene, in the province of Treviso, the hundredth branch for Banca Popolare – Volksbank. Therefore, we are currently present in four different provinces.

## **Consultancy to investors**

In April 2005 we launched our new project of consultancy to investors.

The introduction of the consulting and management service is linked to our objective of continuous management oriented to the needs of the “large private customers” segment.

Based on a systematic analysis of the customer’s standing, individual solutions are developed which are tailored to the customer’s situation. A detailed questionnaire is used to assess the customer’s current and future needs, as well as their objectives, risk appetite, experience and duration of the relationship with the bank. The result is a personal profile of the investing customer, which serves as the base for the individual organization of the portfolio.

## **bank4fun – more than a bank with a youthful look!**

The development of bank4fun confirms, every year, the benefits of the idea of a “meeting point for young people”. Our bank4fun branches are very popular with young people. The homepage is without equal on the national and international market. The range of products is tailored to the needs of young people and its events are popular with young people within our customer base.

In 2001 we started developing the concept of “the bank for young people in Alto Adige”. The main goal was to provide a physical and virtual space for young people to meet, share ideas and communicate with each other, but approach banking in a way that is in line with their age. After the positive positioning of the trademark bank4fun on the market and the consolidation of the communication platform, our attention is now turned to coming even closer to the younger customers of our bank, offering consultancy and management according to their needs, developing and offering appropriate solutions.

### *The development of the bank4you youth concept so far and its three pillars*

The different bank4fun branches in Alto Adige are very popular with young people. The value of the “meeting point” concept was accepted and is enjoyed by young people. In addition to the various activities offered, such as the use of gaming consoles, table football and free access to internet for funcard holders, we offer young customers the possibility to carry out their daily bank transactions in an environment created especially for them. A recent survey confirms our presence on the youth market of Alto Adige: 90% of young people in Alto Adige know the trademark bank4fun and what it offers. The Funstyle and Lifestyle events, as well as workshops, seminars and sponsorships of youth facilities by bank4fun have great success. The concept of the “bank for young people” of Banca Popolare – Volksbank enjoys wide consent and the consultancy provided to youth is highly appreciated.

The confirmation of success encourages us to continue on the path we have taken. Indeed, on 11 June 2005 we opened our fourth bank4fun branch in via Brennero, Bressanone.

The second important pillar of our youth segment, the internet portal **www.bank4fun.it**, has become the home page of young people, not only in Alto Adige. With over 29,000 registered users (amounting to over 50% of the young customer base) and about 11,000 daily accesses the portal has now become the reference point for similar interactive communications with customers. This success has drawn the interest of the entire banking sector both in Italy and abroad. This is even more important since most of the young people can be contacted through the internet portal.

The third important pillar in the bank4fun concept is the consultancy provided to young people in each branch. The targeted contact and the consultancy of young customers by experienced employees in the branches gives us the ability to quickly understand the needs which young people do not always express and find the best solutions to develop our products and services. The consultancy for young people is the link connecting the other two pillars and completes the preparatory work. The contact with young people was successfully accepted, now we need to consolidate it!

### **The insurance segment**

In 2005, in the insurance segment, we maintained the diverse structure in management of mass transactions and individual transactions.

Standard solutions were placed with great success directly at the branches also because they require a relatively low level of consultancy.

Overall we were able to obtain considerable increases in practically all segments: concerning healthcare insurance policy H there was an increase of + 16.3%, for life insurance and global family insurance the increase reached 36.3% and 44.5%.

### **The finance segment**

In 2005 the stock markets, after an initial period of slight uncertainty, closed again with a clearly positive sign. For instance the Eurostoxx 50, the index of the primary stocks in Eurozone, showed how up to about mid May there were no real trends and then the index rose steadily – with small interruptions in August and October. At the end of the year the increase stood at 20%.

On the contrary, concerning interest rates in the short-term segment, for the entire year there was no movement. Only in mid November there was a considerable increase by the European Central Bank (ECB), and rates in the money market rose considerably.

Lastly, in December, after over two years and a half, ECB raised rates by 0.25%.

While for a long time there was no movement on the money market, 10-year interest rates fell from 3.75% at the beginning of the year to 3.13% (mid September). This led to the tax curve levelling off and also the increase in the prime rate did not change anything. Towards the end of the year 10-year interest rates rose again to 3.45%, but despite the increase in ECB rates they were still lower by 0.30% than at the beginning of the year. The interest rate curve for the segment in the short term, after an initial increase, levelled off, resulting in an additional increase in rates; this leads us to expect a new slowdown in the economy.

In the dollar exchange rate, not only did it manage to slow the downward trend against the Euro, but it even gained value through a relatively steady rise. Indeed, if at the beginning of the year it was still 1.35 Dollars to the Euro, at the beginning of February the Dollar came back to 1.28 and then fell again in mid March to 1.34. At year-end the Dollar rose to a surprising 1.21, despite the fact that the American economy saw a series of issues that still await solutions, in particular the high public debt, little propensity towards saving and high trade deficit.

Our bank again focused on a prudent strategy and in the financial segment it maintained its policy of secure gain: in addition it was our goal to obtain a good rating. The agency Moody's assigned an "A3" rating to our bank on long-term deposits. This means placement in the mid-upper class which corresponds to low credit risk (Moody's definition).



The securities portfolio, with 539 million Euro, was about 45 million Euro higher than the previous year; the lower share of securities was offset by government bonds and high-solvency bonds and maturities mainly in the short term.

This way of operating, together with earnings in exchange rates, brought our bank an income of 3.70% (for comparison: the average income on investments at 6 months in tied deposits amounted to 2.232%).

## **Payment systems**

The process started up in the past years for “restructuring the payment systems area” continued. Our goal is to provide our customers with efficient, secure and cost-effective services. In addition to the rationalization of the organizational structure, our aim was to take into further consideration the different segments of customers. This circumstance was respected also for what concerns adjusting the organizational structure, i.e., the new services, the financial/private service and the financial/business service.

One of our main goals was to expand electronic payment systems and increase consent with our customers. In the business and corporate client segment the following provisions were introduced: expansion of the home banking service for corporate clients (over 90% of all the effects already presented through home banking), in particular the web-based version of Cobaweb, which ensures operations from any location. Furthermore, almost all POS devices were replaced.

Together with the change of the POS terminal operator we also replaced a considerable share of the devices. With this measure we renewed and upgraded almost all of our POS equipment to technical standards: over 90% of the devices are now technically at the highest level and ready for a new microchip smartcard.

As regards treasury services for public entities we turned our attention to supporting all preparations for electronic transactions and together with the public entities and associations, we provided support for developing technical solutions that will enable us to optimize even more the costs of services provided.

## **Our virtual banking service**

Electronic technology is developing quickly also for application in the banking sector. We also note a close cooperation between the card sector and multi-channel sector.

In this sense and in the context of reorganization we introduced a service that follows and manages directly cards and all the services provided to private customers under the trademark **bank4u**.

### **Cards**

Since April 2005, prepaid cards, a mainly Italian phenomenon, have enriched our range of cards. ONE is a disposable card, ONE MORE and ONE MORE ORANGE are rechargeable cards dedicated to private customers and young customers respectively.

The blend between the world of cards and other channels makes it possible to consult your balance and transactions as well as recharge your card at the window, ATM and through direct b@nking.

**bank4u** is the trademark that gathers all multi-channel services of our bank, which allows the private customer to operate at any time in a secure, convenient, simple and cost-effective way from home, office, car or train in Italy or abroad.

### **SMS b@nking**

An initial step was completed with the introduction, in November, of SMS b@nking. This service makes it possible for the customer to receive information about their current account, deposits and securities on the Milan stock exchange on their mobile phone and/or at their email address.

There will soon be the possibility to request certain information on reports by text messaging the bank.

The success of the new service is considerable and growing constantly. In only two months over 2,000 customers have activated the service. In the same months we sent 35,000 text messages free of charge.

### Developments expected

Our bank is always dedicated to increasing attention on technology in the sector above all for what concerns contact between the customer and the bank regardless of branch business hours.

In particular, text messaging is a fast and real-time information tool suitable also to ensure the security required by the customer (e.g. notification of ATM withdrawals).

We are committed to finding the best solutions for the customer and for ourselves, such as terrestrial digital television and media centre.

### Equity investments

The reader should refer to section 3, table B.3.1. in the Notes to the accounts. Our equity investments are divided into:

#### Equity investments in the companies of the Banking Group

Our bank, in compliance with applicable laws (Legislative Decree 356/1990) and supervisory regulations, is the parent bank of a Banking Group and is registered with the Bank of Italy in the Banking Group Register.

The following financial company is a part of the Group and is entirely controlled by our bank as parent bank:

(Euro)

	<b>Book value</b>
- Berger S.p.A., Bolzano	992,356
<b>Total</b>	<b>992,356</b>

The above financial company carries out leasing operations, through the ownership and management of the following assets (as at 31/12/2005) for use by the bank:

(Euro)

- Building in Bolzano, Via del Macello n. 55, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	10,550,773 -6,284,955
	<b>4,265,818</b>
- Building in Bolzano, Piazza Parrocchia n. 4, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	3,458,587 -1,998,027
	<b>1,460,560</b>
- Building in Pone nelle Alpi, Viale Roma n. 87, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	589,776 -315,841
	<b>273,935</b>
- Building in Bressanone/Millan, Via Plose, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	2,089,402 -493,140
	<b>1,596,262</b>
- Building in Trento, Piazza Lodron n. 2, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	4,285,820 -118,625

	<b>4,167,195</b>
- Building in Mori, Via della Terra Nera 48/d, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	748,284 -51,866
	<b>696,418</b>
- Building in Cavalese, Via Libertà n. 7, recorded in the subsidiary's financial statements less: related provision for amortization and depreciation	550,000 --
	<b>550,000</b>

### Other equity investments

These are for the most part minor shareholdings in banking, financial and service companies and in secondary activities, to the extent they act as support for operations of the bank or Group.

Exceptions are Optima S.r.l., Bolzano, an insurance brokerage firm, recorded in financial statements at a value of 1,917 thousand Euro and Immobiliare A&A, Bolzano, recorded in financial statements at a value of 33 thousand Euro, both 100% controlled by our bank.

An additional investment to be mentioned is the recovery of credit position in Casa di cura Villa S. Anna S.r.l., Merano, for an amount recorded in the financial statements of 516 thousand Euro.

We should also mention, listed in order of amount invested, Mediocredito Trentino Alto Adige S.p.A., Trento at 2,463 thousand Euro, C.I.S.- Compagnia Investimenti e Sviluppo S.p.A., Villafranca, Verona, at 2,427 thousand Euro and S.E.C. - Servizi elettrocontabili fra Banche Popolari, S.C.p.A. Padua, at 4,144 thousand Euro.

We reiterate that the latter is a strategic investment for the purpose of forming, together with other banks, a common data processing centre.

In 2005, investments in Factorit S.p.A., Milan and SEC Solutions S.c.p.A., Padua were disposed of.

At the same time we increased our shareholdings in Banca Italease S.p.A., Milan, S.E.C. – Servizi elettrocontabili fra Banche Popolari S.C.p.A., Padua, and Immobiliare A&A S.r.l., Bolzano.

### Our personnel

At the end of 2005 the personnel of our bank amounted to 890 employees, only 3 more compared to the previous year. The share of female employees is 40.9% at 364 units. Last year 41 employees left the company and 44 new persons were hired. Overall, there were 572 employees in branches and 318 in internal divisions.

Overall, 6 staff members were employed with a temporary contract, 19 with a training contract and 114 with a part-time contract; 28 employees were on maternity leave and 18 were on unpaid leave.

In consideration of these absences and the reduction in working hours with a part-time contract, an average of 803 employees were on duty in 2005: 542 (67.5%) in the branches and 261 (32.5%) in internal divisions. Compared to last year (795 employees) the total number of employees rose by 8 (1.0%), 6 of which were placed in branches.

### Personnel training

The traditional aim of personnel training was to train for adequate operations both in quantitative and in qualitative terms, in each branch and internal division in reference to the dimensioning model already experimented and checked on a yearly basis, which is based on market data as well as on comparable indices of organizational units. We also add the choice and insertion of staff for new branches in Trentino and Belluno according to tested criteria of technical skill, willingness to undertake a commitment for a medium/long term for Banca Popolare - Volksbank and to be effective in new markets.

Concerning content, the human resources development service geared its activities above all towards objectives in sales and defined respective focal points to support this effort.

The development of existing professional profiles in sales and their adjustment to new needs, deriving from the simultaneous segmentation of customers and personal assignment of our customers to an operator, led to an in-depth study of this issue.

Additionally, consultancy for investors – a new and complex form of consultancy – introduced in 2005, was pushed with force and developed during the entire year by organizing quality round tables. To enable an even more effective exchange of opinions in order to optimize this service, several interested employees coming from different branches and divided into groups were invited to take part in several meetings.

Knowledge organization and qualification in Banca Popolare – Volksbank, the issues that were studied and debated in detail and inserted in the new concept of training.

The main departure point for all the debates and activities was the description of positions and duties as well as employee assignment.

All the participants in this process took on an important commitment and responsibility and found support from knowledge and training contacts from within the bank.

### **Our shareholders**

Planting roots for our bank among the people in our customer basin has always been one of our primary objectives. In order to further strengthen this bond, last year we also took on new shareholders.

The total number of shareholders at the end of 2005 amounted to over 15,200 people. With this number of shareholders we are and remain the most important cooperative bank in the region.

With the increase of share capital resolved in 2003, the number of shares offered in the three steps - in 2003, 2004 and 2005 – was amply overtaken by subscribers. In hindsight it is clear, that the demand for new shares of Banca Popolare – Volksbank was considerable.

In recent years the value of shares in Banca Popolare – Volksbank is rising constantly.

During the year under review, the Board of Directors set the issue price of new shares at 14.10 Euro which corresponds to an increase in value of 5.22%.

This increase in value, together with dividends distributed on the price of shares set in 2004, represents an annual growth rate of 7.23%.

### **Internal organization**

One of the main organizational duties was the definition and constant improvement of work processes. Procedures are made efficient and operational risks are minimized.

For the start-up of Basel 2 on 1/1/2007, a project has been set in order to study the entire loan process, and based on this study a concept to reorganize the loan process was developed.

In collaboration with our outsourcer SEC-Servizi a series of improvements was introduced, above all for branches, to standardize management in the sales segment so that employees can dedicate even more time to consultancy for our customers. Concerning consultancy for investors, our staff is supported by a special consultancy platform that assesses the risk of every customer and focuses on orienting the customer in this field over the long term. For personal consultancy, staff is also supported by a tool which has been developed during the year.

With the introduction of SMS banking in the second half of the year we opened for our customers another electronic channel to communicate with the bank. The development of other services through this channel is underway.

Legislative provisions and the regulatory authority are also a challenge to the organization, for instance those concerning transparency, the introduction of a chipcard (microcircuit), reforms related to financial statements in compliance with IAS standards and/or the development of new products. The organization, as a service provider, supports each division specialized in implementation.

In 2005, all terminals migrated to the new Windows XP platform and Windows 2003 for the servers. This way all staff now have at their disposal a modern interface which, in addition to being easy to use, ensures higher security standards. Security, for us as a bank, has always been an important issue that is given the due attention.

#### **Updating the “Document on Security Management”;**

The “Document on Security Management” pursuant to articles 33 to 36 under annex B point 19 - point 19.8 of Legislative Decree 196 of 30 June 2003 (Code on protection of personal information) was prepared.

Updating this document pursuant to point 19 of technical regulations (Annex B of Legislative Decree 196 of 30/06/03 – Technical regulation on minimum security measures) was also completed in compliance with the law.

#### **Bank of Italy inspection**

Starting from 10 November 2004 the regulatory body of the Bank of Italy performed an ordinary inspection at our bank, which ended on 28 January 2005. The overall assessment was generally positive and showed a well-positioned company above all for what concerns shareholders’ equity, liquid assets and profitability.

#### **Subsequent events**

We sold all shares in the company Optima S.r.l., Bolzano, insurance brokerage firm, 100% controlled by our bank, to the company Alpbroker S.r.l., Bolzano. The reason for this was that insurance brokerage was no longer considered as core business and the sale had no disadvantages for the bank. Indeed, we reached an agreement for a strategic partnership with the company “Optima S.r.l.”.

## Income statement

The pages above provide an outline of the main balance sheet items, which are further discussed in more detail in the Notes to the accounts.

The following factors stand out in the income statement:

- The considerable growth in volumes above all in the credit lines segment and deposits segment led to an excess in banking margin, which rose by 8.7% to 105.1 million Euro;
- Concerning services, there was an increase in commission income of 9.3% to 36.6 million Euro. The finance segment recorded a profit of 4.2 million Euro. Total income in services was 50.1 million Euro, with an 8.1% increase compared with 2004;
- Total administrative costs, including personnel costs, increased by 10.0% reaching a total of 91.0 million Euro;
- Gross operating income was thus 64.1 million Euro;
- Value adjustments to loans amounted to 11.7 million Euro.

Profit from ordinary operations totalled 31.9 million Euro. As a result we recorded income amounting to 18.8 million Euro.

Extraordinary income was recorded as 4.7 million Euro, while extraordinary charges reached 0.4 million Euro. Each item in the income statement is described in detail in the Notes to the accounts.

## Profit for the year 2005 and net shareholders' equity

Net profit in 2005 was 14,968,681 Euro with an increase of 3.4% compared to 2004. Before the breakdown of profit the reserve for general banking risks was raised by 2.4 million Euro.

The Board of Directors therefore proposes the following to divide net profit:

(Euro)

- Legal reserve	4,400,000
- Statutory reserve	1,743,509
- Dividends to shareholders amounting to 0.28 Euro per share	8,825,172
	<b>14,968,681</b>

After the distribution of net profit, according to the proposal of the Board of Directors, the equity provisions shall increase by 6,143,509 Euro bringing total net shareholders' equity to 382,245,265 Euro, for an increase of 12.5% compared with 2004, of which 17,770,441 Euro for new subscription of shares.

**Bolzano, 9 March 2006**

**THE BOARD OF DIRECTORS**

## Report by the Board of Statutory Auditors

Dear Shareholders,  
the 2005 financial statements submitted for your approval show the following accounting results:

### Balance sheet (Euro)

- Assets	3,974,003,145
- Liabilities	3,582,932,708
- Shareholders' equity and net profit	391,070,437
of which provisions for general banking risks and reserve for possible loan losses	67,682,132

### Income statement (Euro)

- Revenues and profit	250,636,542
- Costs and losses	235,667,861
- Net profit	14,968,681

The Board of Statutory Auditors certifies that the financial statements have been prepared in compliance with the provisions introduced by Legislative Decree 87 of 27 January 1992 and by resolution 100 and subsequent amendments, issued by the Bank of Italy on 15 July 1992.

The Board of Statutory Auditors also certifies that:

- all entries and figures in the financial statements correspond to accounting results, which were managed according to standards;
- the valuation policies comply with the law and are approved by the Board of Statutory Auditors;
- amounts due from customers were adjusted for the amount of 33,996,939 Euro through an analytical valuation of each position;
- additionally, the general risk of possible loan losses is covered by provisions amounting to 42,782,132 Euro;
- valuation of treasury shares shows capital gains amounting to 2,855,640 Euro which, in accordance with the principle of prudent valuation, was not entered in the financial statements;
- items under assets were revalued pursuant to Law 266 of 23 December 2005. The Board of Statutory Auditors confirms that the figures pertaining to these assets in the financial statements do not exceed figures of their financial utilization;
- these financial statements were audited by the auditing company B.D.O. Sala Scelsi Farina S.p.A - Milan, which shall issue their opinion pursuant to art. 156 of Legislative Decree of 24.02.1998 (58).

The Board of Auditors expressly approves recording multi-year costs under assets in the balance sheet.

The Board underlines the fact that year-end profit was determined after allotments to the provisions for general banking risks amounting to 2,400,000 Euro.

Last year the Board took part in all the meetings of the Board of Directors and ascertained the regularity of operations by performing periodic audits.

To sum up, the Board of Statutory Auditors certifies that the financial statements have been prepared correctly and they show the true financial position of the Bank as well as the year-end result.

Therefore the Board of Statutory Auditors hereby expresses a favourable opinion for approving the financial statements as submitted.

**Bolzano, 9 March 2006**

**The Board of Statutory Auditors**

Franz Vigl - Chairman  
Günther Überbacher – Standing Auditor  
Joachim Knoll – Standing Auditor



**Balance Sheet and Income Statement**

**ASSETS**

**LIABILITIES**

**GUARANTEES AND COMMITMENTS**

**INCOME STATEMENT**

### Balance sheet as at 31/12/2005

Assets	31/12/2005	31/12/2004
<b>10</b> Cash and deposits with central banks and post offices	<b>22,557,030</b>	<b>21,477,697</b>
<b>20</b> Treasury bills and similar bills eligible for refinancing with central banks	<b>31,589,695</b>	<b>45,710,750</b>
<b>30</b> Due from banks:	<b>85,260,195</b>	<b>41,726,840</b>
(a) on demand	3,437,166	2,889,001
(b) other	81,823,029	38,837,839
<b>40</b> Due from customers:	<b>3,205,382,633</b>	<b>2,819,810,783</b>
- loans using third-party funds in administration	44,400,418	36,176,253
<b>50</b> Bonds and other debt securities	<b>456,980,415</b>	<b>420,979,649</b>
(a) public entities	58,045,371	72,523,579
(b) banks:	295,871,245	281,061,177
- treasury shares	11,964,592	10,666,445
(c) of financial companies	11,459,880	36,413,957
(d) of other issuers	91,603,919	30,980,936
<b>60</b> Shares, quotas and other equity securities	<b>49,143,540</b>	<b>43,158,185</b>
<b>70</b> Equity investments	<b>12,364,326</b>	<b>10,607,523</b>
<b>80</b> Equity investments in group companies	<b>992,356</b>	<b>992,356</b>
<b>90</b> Intangible assets	<b>4,107,681</b>	<b>4,642,582</b>
<b>100</b> Property plant and equipment	<b>33,951,837</b>	<b>30,367,752</b>
<b>110</b> Subscribed capital unpaid	<b>0</b>	<b>0</b>
<b>120</b> Treasury shares and quotas	<b>0</b>	<b>0</b>
<b>130</b> Other assets	<b>56,687,581</b>	<b>71,375,696</b>
<b>140</b> Accrued income and prepaid expenses:	<b>14,985,856</b>	<b>11,328,040</b>
(a) accrued income	14,637,970	10,887,041
(b) prepaid expenses	347,886	440,999
<b>Total assets</b>	<b>3,974,003,145</b>	<b>3,522,177,853</b>

		<b>Balance sheet as at 31/12/2005</b>		<b>31/12/2004</b>	
<b>Liabilities</b>		<b>31/12/2005</b>		<b>31/12/2004</b>	
<b>10</b>	Due to banks:		<b>524,841,447</b>		<b>339,866,554</b>
	(a) on demand	95,840,250		48,937,017	
	(b) with agreed maturity or period of notice	429,001,197		290,929,537	
<b>20</b>	Due to customers:		<b>1,423,914,218</b>		<b>1,386,812,676</b>
	(a) on demand	1,340,142,893		1,293,144,256	
	(b) with agreed maturity or period of notice	83,771,325		93,668,420	
<b>30</b>	Securities issued:		<b>1,486,552,755</b>		<b>1,314,816,398</b>
	(a) bonds	1,407,170,557		1,220,472,210	
	(b) certificates of deposit	9,382,198		9,344,188	
	(c) other securities	70,000,000		85,000,000	
<b>40</b>	Third-party funds in administration		<b>44,390,365</b>		<b>36,148,406</b>
<b>50</b>	Other liabilities		<b>52,411,315</b>		<b>50,018,175</b>
<b>60</b>	Accrued expenses and deferred income:		<b>8,682,118</b>		<b>8,220,426</b>
	(a) accrued expenses	8,657,330		8,185,491	
	(b) deferred income	24,788		34,935	
<b>70</b>	Staff severance indemnities		<b>22,528,618</b>		<b>20,929,134</b>
<b>80</b>	Provision for risks and charges:		<b>19,611,872</b>		<b>17,478,114</b>
	(a) Pensions and similar commitments	0		0	
	(b) Provision for taxation	17,882,419		13,906,019	
	(c) other provisions	1,729,453		3,572,095	
<b>90</b>	Provision for possible loan losses		<b>42,782,132</b>		<b>32,887,983</b>
<b>100</b>	Reserve for general banking risks		<b>24,900,000</b>		<b>22,500,000</b>
<b>110</b>	Subordinated liabilities		<b>0</b>		<b>0</b>
<b>120</b>	Capital		<b>63,036,944</b>		<b>60,612,600</b>
<b>130</b>	Share premium reserve		<b>97,171,246</b>		<b>81,825,149</b>
<b>140</b>	Reserves:		<b>119,823,000</b>		<b>113,527,919</b>
	(a) legal reserve	72,700,000		68,100,000	
	(b) reserve for treasury shares	0		0	
	(c) statutory reserves	32,545,390		30,850,309	
	(d) other reserves	14,577,610		14,577,610	
<b>150</b>	Revaluation reserves		<b>28,388,434</b>		<b>22,056,537</b>
<b>160</b>	Profit carried forward		<b>0</b>		<b>0</b>
<b>170</b>	Profit for the year		<b>14,968,681</b>		<b>14,477,782</b>
<b>Total liabilities and shareholders' equity</b>			<b>3,974,003,145</b>		<b>3,522,177,853</b>

### Guarantees and commitments as at 31/12/2005

	31/12/2005	31/12/2004
<b>10</b> Guarantees given:	<b>413,773,158</b>	<b>362,432,449</b>
- acceptances	0	0
- other guarantees	413,773,158	362,432,449
<b>20</b> Commitments of which:	<b>13,844,905</b>	<b>11,980,376</b>
- for sales with repurchase agreements	0	0

## Income statement as at 31/12/2005

		31/12/2005	31/12/2004
<b>10</b>	Interest income and similar income:	<b>161,072,650</b>	<b>144,703,129</b>
	- on customer receivables	138,777,031	125,228,101
	- on debt securities	13,815,574	10,888,505
<b>20</b>	Interest expense and similar charges of which:	<b>-58,541,436</b>	<b>-50,152,943</b>
	- on amounts due to customers	-11,085,313	- 9,392,459
	- on securities issued	-37,230,869	- 34,928,324
<b>30</b>	Dividends and other revenues:	<b>2,528,181</b>	<b>2,143,961</b>
	(a) shares, quotas and other equity instruments	1,996,492	2,003,299
	(b) equity investments	531,689	140,662
	(c) equity investments in group companies	0	0
<b>40</b>	Commission income	<b>36,608,691</b>	<b>33,502,526</b>
<b>50</b>	Commission expense	<b>-4,924,777</b>	<b>- 4,475,295</b>
<b>60</b>	Profit (loss) from financial transactions	<b>4,237,017</b>	<b>5,800,812</b>
<b>70</b>	Other operating income	<b>14,190,055</b>	<b>11,542,592</b>
<b>80</b>	Administrative costs:	<b>-91,029,072</b>	<b>- 82,787,741</b>
	(a) personnel costs:	-52,235,593	- 49,395,821
	- wages and salaries	-35,450,382	- 33,734,362
	- social security contributions	-9,993,682	- 9,076,167
	- staff severance indemnities	-2,588,102	- 2,467,137
	- pensions and similar commitments	-2,202,701	- 2,117,233
	(b) other administrative costs	-38,793,479	- 33,391,920
<b>90</b>	Adjustments to intangible and tangible fixed assets	<b>-9,204,911</b>	<b>- 9,113,509</b>
<b>100</b>	Provisions for risks and charges	<b>-754,681</b>	<b>- 3,426,809</b>
<b>110</b>	Other operating costs	<b>-2,323,919</b>	<b>- 2,105,303</b>
<b>120</b>	Adjustments to loans and provisions for guarantees and commitments	<b>-11,693,648</b>	<b>- 13,429,761</b>
<b>130</b>	Write-back of adjustments to loans and provisions for guarantees and commitments	<b>4,257,082</b>	<b>6,398,388</b>
<b>140</b>	Provisions to the reserves for possible loan losses	<b>-12,536,537</b>	<b>- 9,683,677</b>
<b>150</b>	Adjustments to financial assets	<b>0</b>	<b>0</b>
<b>160</b>	Write-backs of financial assets	<b>0</b>	<b>0</b>
<b>170</b>	Income (loss) from ordinary activities	<b>31,884,695</b>	<b>28,916,370</b>
<b>180</b>	Extraordinary income	<b>4,680,752</b>	<b>3,684,353</b>
<b>190</b>	Extraordinary charges	<b>-433,879</b>	<b>- 3,457,054</b>
<b>200</b>	Extraordinary profit (loss)	<b>4,246,873</b>	<b>227,299</b>
<b>210</b>	Changes in the reserve for general banking risks	<b>-2,400,000</b>	<b>- 1,400,000</b>
<b>220</b>	Income taxes for the year	<b>-18,762,887</b>	<b>- 13,265,887</b>
<b>230</b>	<b>Profit (loss) for the year</b>	<b>14,968,681</b>	<b>14,477,782</b>

- **Part A – Accounting Policies**
- **Part B - Information on the Parent Bank balance sheet**
- **Part C - Information on the Parent Bank income statement**
- **Part D – Further information**

## **Notes to the Accounts**

### **STRUCTURE AND CONTENT OF FINANCIAL STATEMENTS**

These Notes to the accounts are an integral part of the financial statements together with the balance sheet and the income statement in compliance with Legislative Decree 87/1992 which governed – in adherence to EU directive 86/635 – the yearly accounts of banks.

The Notes to the accounts illustrate and analyse figures in the financial statements and contain information required by the aforementioned Decree 87/1992 and by provision no. 100 issued by the Bank of Italy on 15/07/1992 and subsequent amendments and by other laws. Additional information is also provided to illustrate the true and correct standing even if not specifically required by legal provisions. Therefore the Notes to the accounts also include the following:

- cash flow statement for the financial period;
- statement of changes in shareholders' equity;
- disclosure of trading in treasury shares during the financial year (Presidential Decree 30/1986, art. 8);
- statement of property assets that in the past have been subject to monetary revaluations according to specific laws (Law 72/1983, art. 10);
- financial statements of subsidiaries (art. 2429, sec. 3 Civil Code).

It should also be noted that the amounts contained in the balance sheet and income statement are expressed in Euro, whereas those in the statements of the Notes to the accounts and additional statements are expressed in thousands of Euro as per current law.

## Part A – Accounting Policies

## Part B - Information on the Balance Sheet

## Part C - Information on the Income Statement

## Part D – Further Information

### Part A – Accounting Policies

The financial statements were prepared in compliance with legal provisions and the policies adopted, which are at the base of valuation standards, outlined herein, were agreed on with the Board of Statutory Auditors.

#### **Policies adopted (art. 2423, bis, Civil Code).**

- 1) prudence and the going concern principle (continuity of financial statements);
- 2) consideration of profits achieved;
- 3) recording of income, charges, risks and loss on an accrual basis;
- 4) separate valuation of homogeneous items;
- 5) consistency in valuation criteria;
- 6) prevalence of financial substance with respect to legal form.

#### **Section 1 – Illustration of valuation criteria**

##### **1. Loans, guarantees and commitments**

**Amounts due from customers** including interest and penalties accrued, and valued as realizable, are recorded in the financial statements at their realisation value. This amount is obtained by subtracting the total amount provided, losses and estimates for doubtful loans in the principal and for interest, defined based on an analytical valuation of each position of non-performing loans, problem loans, and restructured loans and loans overdue for over 180 days as defined according to Bank of Italy standards.

Pursuant to new regulations, the original value of the loan is adjusted over subsequent financial years if the reasons for adjustment no longer apply

No valuations were carried out for “country risk”, since there are no loans to countries at risk, or for “sector type risk” since there are no loans in sectors with particular inherent risks and if they should arise they would in any case be covered by the reserve for general banking risks.

The bank operates using the procedure SEAC (Customer Analysis System), which, **on a monthly basis**, shows any irregular positions assigning them a risk rating. The analysis is made based on a series of irregularities which are assigned a binding threshold and a pair threshold (presence of at least two irregularities) and a specific correlation with other irregularities. The variables or events that may indicate incorrect operations or may expose the bank to risk, are the following;

- **by the Bank:** investment position, excessive movement, overdue instalments unpaid, excessive duration of international commercial transactions, excessive duration of refinancing on loans, presence of overdue bills and not paid in the financial portfolio, high recalled capital, high use of liquidity, suspended cheques, other suspended items, presence of overdue loans;

- **by the Central Risk Service:** call of loan, tension in use of on-demand loans, over credit limit, signals of non-performance, changes to agreements on loans, on indirect credit limits and in completely guaranteed cash transactions, increase in recourse to credit on direct credit limits.

**Guarantees given** (endorsements, sureties, acceptances, document loans) are recorded at the overall value of the commitment assumed.

A separate valuation was made on the guarantees given with consequential allocation to the “provision for risks on guarantees given” in relation to presumable loss of value.

Securities and bills to be received are shown based on the price contractually agreed with the counterpart.

Deposit and loan agreements are shown based on the amount to be disbursed.

Other **commitments and risks** are shown based on the overall value of the commitment assumed, including interest.

**Due from banks** are valued at the nominal value in addition to interest accrued at the balance sheet date, net of any repayments. This figure shows the net realisation value.

**Other amounts receivable** are shown at their nominal value plus any interest accrued at the balance sheet date. This amount shows the net realisation value.

Transactions for notes and documents received with recourse, for discounting and subsequent collection are recorded in the financial statements, in the accounts with customers and credit institutions when they are settled (financial maturity).

## **2. Off-balance sheet securities and transactions (other than on currencies)**

Security transactions and other investment securities are recorded at the moment they are settled.

### **2.1. Investment securities**

Investment securities are valued at historical purchase price pursuant to art. 18 of Legislative Decree 87/92.

### **2.2. Short-term securities:**

Short-term securities are valued as follows:

- for listed securities: at the lower amount of the cost, determined according to the average daily weighted cost increased by the accrued issue difference, net of tax withholdings, and the market value, the latter calculated as the arithmetic mean of the last month on the stock exchange;
- for unlisted securities: at cost with the obligation to write down according to the realisation value, obtained by time discounting future financial flows at current market interest rate.

The original cost is adjusted if the reasons that originated the value adjustment are no longer applicable.

**Repurchase agreements** on securities, with the obligation to repurchase or forward resell, are recorded among amounts due to and due from customers and/or banks.

Costs for funding and income from lending activities are therefore recorded accordingly in the respective items of interest in the income statement.

Repurchase agreements on securities, with the right to repurchase or forward resell, are recorded among securities.

### **2.3. Off-balance sheet transactions**



**“Off-balance sheet” transactions on both “trading” and “hedging” securities** (specifically interest rate swaps for trading and hedging, trading options and forward transactions on trading) are valued with the same valuation criteria of the segment in question:

- for “listed” instruments: the lower value of the cost and market price, the latter determined as the arithmetic mean of the last month on the stock exchange;
- for “unlisted” instruments: at cost with the obligation to write down according to the realisation value, obtained by time discounting future financial flows at current market interest rate.

Additionally, “on-balance sheet” and “off-balance sheet” assets and liabilities concerning derivative contracts on securities within hedging interest rate swaps are valued separately. In any case the transactions connected to each other are valued in a consistent manner.

### **3. Equity investments**

Equity investments are shareholdings, represented in securities or not, in companies or enterprises acquired as stable investment and to realize a longstanding link to favour development of bank activities.

These shareholdings, as they are financial investments, are valued at purchase price, pursuant to art. 18 of Legislative Decree 87/1992, and written down when considered impaired.

The original value of the loan is adjusted over subsequent financial years if the reasons for adjustment no longer apply.

### **4. Currency assets and liabilities (including “off-balance sheet” transactions)**

Currency assets and liabilities are converted into Euro at spot exchange transactions at the end of the financial year, recording the effect in the income statement.

“Off-balance sheet” transactions in foreign currency are valued:

- if they are “spot” transactions not yet settled, at the year-end exchange rate;
- if they are “forward” transactions at the year-end exchange rate with maturity the same as the residual duration of the transaction.

The effect of the valuation is stated in the income statement.

Currency transactions are entered at the moment of settlement and the related costs and income are recorded at the current exchange rate when entered or at the year-end exchange rate.

Additionally, “on-balance sheet” and “off-balance sheet” assets and liabilities concerning derivative contracts in foreign currency are valued separately. In any case the transactions connected to each other are valued in a consistent manner.

“Off-balance sheet” transactions on foreign currency (specifically: hedging foreign exchange swaps, outright trading) are valued at year-end exchange rates, divided as follows:

- forward exchange transactions, for the remaining life, for “trading” derivatives;
- spot exchange transactions for “hedging” derivatives in order to make a homogeneous valuation consistent with the one for the “hedged” transaction.

The effect of the valuation is stated in the income statement under “profit and loss from financial transactions”.

### **5. Property plant and equipment**

These are recorded at their purchase price, including accessory charges incurred, adjusting the value for certain assets in application of specific monetary revaluation laws; The amount recorded in the balance sheet is obtained by deducting the depreciation carried out from the accounting value defined using this method.

Property, plant and equipment are systematically depreciated in every financial year, on a straight line basis, based on the financial-technical rates that coincide with those established by tax regulations, applying the maximum rates.

## **6. Intangible assets**

These are recorded at their purchase price, including accessory charges incurred, and are systematically amortised for the period of their future life.

Long –term plant and expansion costs are recorded under assets with the consent of the Board of Statutory Auditors and are amortised over a period of five years except for those related to the purchase of software which are amortised over three years.

The residual long-term charges incurred before Legislative Decree 87/92 came into force are amortised based on the previous regulations in force, according to contract duration.

## **7. Other aspects**

**Accrued income and prepaid expenses** are determined as agreed with the Board of Statutory Auditors, based on the accrual principle.

**The provision for staff severance indemnity**, taking into account the allocation for the financial year and use for indemnities paid during the financial year also for advances, represents the total coverage of amounts due to personnel in compliance with law 297 of 29/05/1982.

**The provisions for risks and charges** comprise by the provision for taxation, which is the allocation of income tax made based on a realistic forecast of current tax charges, the provision for risks and charges for guarantees given, which includes allocations following forecasts on losses between guarantees given by the bank and the provision for risks and charges, which includes allocations for forecast charges.

**The provision for possible loan losses** includes non adjusting allocations to assets, to cover possible risks on capital and penalty interest and which are maintained on the balance sheet for prudent reasons, in excess to the year-end valuation for losses on doubtful loans for capital and interest.

**The reserve for general banking risks** covers the general operating risk and thus, is a type of equity as it is assimilable to an available reserve.

**Interest income and expense** and other income and costs are calculated and recorded based on the accrual principal with calculation of accrued income and prepaid expenses and accrued expenses and deferred income. These positive and negative components also include:

- income and charges for “off-balance sheet” transactions to cover assets and liabilities that generate interest;
- income and charges for repurchase agreement transactions and purchases with the obligation to resell.

## **Section 2 - Tax adjustments and taxation allocations**

### **Operational allocations exclusively in application of tax regulations**

For the current year and for previous years no value adjustments or operational allocations were made exclusively in application of tax regulations.

## **Section 3 - Further Information**

There is no additional information to that has not already been covered in the above points in these Notes to the accounts.

The criteria for valuating short-term securities has been changed from the LIFO method on a yearly basis with the AWC method (daily average weighted cost).

This was carried out in order to apply the provisions of the IAS/IFRS which shall come into force in 2006 for the bank. The financial and shareholders' equity effect for the year 2005 is marginal.

- **Part A – Accounting Policies**
- **Part B - Information on the Balance Sheet**
- **Part C - Information on the Income Statement**
- **Part D – Further information**

## **Part B - Information on the Balance Sheet**

### **Section 1 – Loans**

#### **Cash and deposits with central banks and post offices (Item 10)**

This item shows a balance of 22,557 thousand Euro and includes:

(in thousands of Euro)

	<b>31/12/05</b>	<b>%</b>	<b>31/12/04</b>	<b>%</b>
Bills and coins	22,532	99.9	21,453	99.9
Orders and bankers' drafts	--	--	--	--
Cash at the Bank of Italy	--	--	--	--
Cash at the post office	6	--	6	--
Other	19	0.1	19	0.1
<b>Total</b>	<b>22,557</b>	<b>100.0</b>	<b>21,478</b>	<b>100.0</b>

The amount in foreign currency totals to 820 thousand Euro.

#### **1.1. Amounts due from banks (Item 30)**

This item shows a balance of 85,260 thousand Euro and includes the following types of use:

(Table B.1.1.)

	<b>31/12/05</b>	<b>%</b>	<b>(in thousands of Euro)</b>	
			<b>31/12/04</b>	<b>%</b>
Due from the Bank of Italy	26,558	31.1	26,003	62.3
– for compulsory reserve	--	--	--	--
- for other relations				
<b>Total</b>	<b>26,558</b>	<b>31.1</b>	<b>26,003</b>	<b>62.3</b>
Amounts due from other central banks	--	--	--	6.9
	3,437	4.1	2,889	28.4
Amounts due from banks:	55,265	64.8	11,837	--
- for current accounts	--	--	--	2.4
- for deposits	--	--	998	--
- for financing	--	--	--	--
- repos and reverse repos				
- for securities lending				
<b>Total</b>	<b>58,702</b>	<b>68.9</b>	<b>15,724</b>	<b>37.7</b>
<b>Grand total</b>	<b>85,260</b>	<b>100.0</b>	<b>41,727</b>	<b>100.0</b>

The average remuneration rate for the mandatory reserve with the Bank of Italy was 2.10%.

At year-end there were no bills eligible for refinancing with the Bank of Italy (B.1.1.).

There are no loans with subordination clauses.

There are no amounts due from banks that can be considered as “doubtful loans” nor were there, as mentioned, any value adjustments on amounts due from banks.

(Table B.1.2.) (in thousands of Euro)

Categories / values	Gross exposure	Total value adjustments	Net exposure
<b>A. Doubtful loans</b>	--	--	--
A.1. Non-performing loans	--	--	--
A.2. Problem loans	--	--	--
A.3. Restructured loans	--	--	--
A.4. Overdue loans for over 180 days	--	--	--
A.5. Non-guaranteed loans to countries at risk	--	--	--
<b>B. Performing loans</b>	<b>85,260</b>		<b>85,260</b>

Tables concerning movements in doubtful loans and the movements in total value adjustments (B.1.3. and B.1.4.) are omitted since they total zero.

### 1.5. Amounts due from customers (Item 40)

Loans, which shows a balance of 3,205,383 thousand Euro, are entered at their net realisation value and includes the following technical forms of use:

(Table B.1.5.) (in thousands of Euro)

	31/12/05	%	31/12/04	%
Current accounts	1,262,613	39.4	1,095,418	38.8
Loans in foreign currency and in Euro abroad	166,394	5.2	192,034	6.8
Discounted portfolio	701	--	1,164	0.1
Portfolio customer STC - non-liquid balances	72,788	2.3	81,185	2.9
Loans and other forms of finance	1,469,597	45.8	1,258,865	44.6
Amortisation and depreciation accounts	144,441	4.5	116,118	4.1
Non-performing balances	43,539	1.4	38,580	1.4
Repos and reverse repos	803	--	162	--
Current account cheques drawn on bank	--	--	--	--
Securities lending	--	--	--	--
Transactions using third-party funds in administration	44,400	1.4	36,176	1.3
Other loans	107	--	109	--
<b>Total</b>	<b>3,205,383</b>	<b>100.0</b>	<b>2,819,811</b>	<b>100.0</b>

At year-end there were no bills eligible for refinancing with the Bank of Italy (B.10.5.).

There are no loans with subordination clauses (B.5.4.b).

### 1.6. - Guaranteed loans to customers

Amounts due from customers entirely or partially covered by guarantees are detailed below (only for the part guaranteed) at their nominal value:

(Table B.1.6.) (in thousands of Euro)

	31/12/05	%	31/12/04	%
Guaranteed loans:				

<b>(a) by mortgages</b>	1,582,779	69.4	1,328,701	67.7
<b>(b) by pledges on:</b>				
1. cash deposits	34,165	1.5	11,069	0.6
2. securities	22,511	1.0	26,254	1.3
3. other values	--	--	373	--
<b>(c) by guarantees from:</b>	--	--	--	--
1. governments				
2. other public entities	1,225	0.1	1,014	0.1
3. banks	1,365	0.1	2,240	0.1
4. other operators	637,145	27.9	591,617	30.2
<b>Total at nominal value</b>	<b>2,279,190</b>	<b>100.0</b>	<b>1,961,268</b>	<b>100.0</b>

### 1.7. - Analysis of cash loans to customers

The value adjustments on amounts due from customers were made taking into account the solvency of debtors and follow an analytical valuation of each position.

At year-end there were no loans to customers being restructured in the loan portfolio:

(Table B.1.7.) Categories / values	Gross exposure	(in thousands of Euro) Adjustments to total value	Net exposure
<b>A. Doubtful loans</b>	<b>208,932</b>	<b>33,997</b>	<b>174,935</b>
A.1. Non-performing loans	69,076(*)	25,537	43,539
A.2. Problem loans	110,441(*)	7,960	102,481
A.3. Restructured loans	5,020	500	4,520
A.4. Loans due/overdue by more than 180 days	24,395	--	24,395
A.5. Non-guaranteed loans exposed to country risk	--	--	--
<b>B. Performing loans</b>	<b>3,030,448</b>	<b>--</b>	<b>3,030,448</b>

(\*) Net of losses which became definitive during the financial year, amounting to 4,581 thousand Euro.

Below are Tables concerning the changes in doubtful loans (B.1.8) and the changes in total value adjustments (B.1.9.).

### 1.8. - Movements in doubtful loans to customers

(Table B.1.8.) Type/Category	(in thousands of Euro)				
	Non-performing loans	Problem loans	Restructured Loans	Loans overdue by over 180 days	Loans not guaranteed to countries at risk
<b>A. Opening gross exposure as at 31/12/2004</b>	<b>62,331</b>	<b>65,698</b>	<b>3,649</b>	<b>--</b>	<b>--</b>
A.1 of which: for default interest	10,331	--	--	--	--
<b>B. Increases</b>					
B.1 from performing loans	10,049	68,601	5,020	52,263	--
B.2 Default interest	4,575	--	--	--	--
B.3 Transfer from other categories of doubtful loans	14,064	3,202	--	--	--
B.4 Other increases	997	1,390	--	446	--
<b>C. Decreases</b>					
C.1 To performing loans	476	8,728	--	20,739	--
C.2 Write-offs	5,714	90	--	2,783	--
C.3 Collected	4,761	6,000	3,649	--	--
C.4 Arising from sales	--	--	--	--	--
C.5 Transfer to other categories of doubtful loans	123	13,632	--	3,511	--
C.6 Other decreases	11,866	--	--	1,281	--
<b>D. Gross closing exposure as at 31/12/05</b>	<b>69,076</b>	<b>110,441</b>	<b>5,020</b>	<b>24,395</b>	

D.1 of which: for default interest 12,207 -- -- --

Other decreases mentioned in point C.6. are composed of certain and definitive losses for 4,581 thousand Euro and the extinction of non-performing loans with partial recovery amounting to 7,285 thousand Euro.

### 1.9. - Movements in total adjustments made to loans granted to customers

(Table B.1.9.)

(in thousands of Euro)

Type/Category	Non-performing loans	Problem loans	Restructured Loans	Loans overdue by over 180 days	Loans not guaranteed to countries at risk	Performing loans
<b>A. Total opening adjustments as at 31/12/2004</b>	<b>23,751</b>	<b>5,031</b>	--	--	--	<b>500</b>
A.1 of which: for default interest	2,999	--	--	--	--	--
<b>B. Increases</b>						
B.1 Value adjustments	6,217	6,272	--	--	--	--
B.1.1 of which: for default interest	1,346	--	--	--	--	--
B.2. Use of reserves for possible loan losses	--	--	--	--	--	--
B.3. Transfer from other categories of doubtful loans	2,309	--	500	--	--	--
B.4. Other increases	--	--	--	--	--	--
<b>C. Decreases</b>						
C.1. Write-backs due to valuation	1,071	69	--	--	--	--
C.1.1 of which: for default interest	23	--	--	--	--	--
C.2. Write-backs from collection	1,353	965	--	--	--	--
C.2.1 of which: for default interest	15	--	--	--	--	--
C.3. Write-offs	4,316	--	--	--	--	--
C.4. Transfer to other categories of doubtful loans	--	2,309	--	--	--	500
C.5. Other decreases	--	--	--	--	--	--
<b>D. Total closing adjustments as at 31/12/2005</b>	<b>25,537</b>	<b>7,960</b>	<b>500</b>	--	--	--
D.1. of which: for default interest	3,896	--	--	--	--	--

Non-performing loans, shown at their nominal value in compliance with current laws, are broken down below:

(in thousands of Euro)

	31/12/05	%	31/12/04	%
Nominal value of non-performing loans:				
- ordinary	69,076	100.0	62,331	100.0
- property	--	--	--	--
- agricultural	--	--	--	--
- industrial	--	--	--	--
<b>Total</b>	<b>69,076</b>	<b>100.0</b>	<b>62,331</b>	<b>100.0</b>
Of which:				
- principal	56,869	82.3	52,000	83.4
- interest	12,207	17.7	10,331	16.6

The aggregates shown in the table include the exposures as at the balance sheet date, regardless of existing guarantees and recovery forecasts. The positions also include any maturing residual principal.

## Section 2 – Securities

### 2.1. - Investment securities

At the balance sheet date, these amounted to 5,982 thousand Euro and are broken down as follows:

(Table B.2.1.)

Items	(in thousands of Euro)	
	Book value	Market value
<b>1. Debt securities</b>		
1.1. Government securities		
- listed	--	--
- unlisted	--	--
1.2. Other securities		
- listed	5,982	5,692
- unlisted	--	--
<b>2. Equities</b>		
- listed	--	--
- unlisted	--	--
<b>Total</b>	<b>5,982</b>	<b>(*) 5,692</b>

(\*) This refers exclusively to the EUROFIMA security, ABI code 9428178.

In 1999, the above figure was transferred to the “investments” segment in view of its specific characteristics. It has a relatively long residual life, lasting twenty years, and an income schedule that is most suitable for a long-term investment. Additionally, the first redemption option required by the issuer is at the end of the tenth year of life of the security. Lastly, even if the issuer is highly reliable, the security is not very liquid as it is not traded at significant volumes on the markets.

As a result of these considerations, the security in question was recorded as a long-term investment.

The valuation of investment securities shows unrecognized capital losses amounting to 290 thousand Euro, of which 1,079 thousand Euro in 1999, 695 thousand Euro in 2000, a capital loss of 116 thousand Euro in 2001, a capital gain of 279 thousand Euro in 2002, a capital gain of 72 thousand Euro in 2003, a capital gain of 718 thousand Euro in 2004 and a capital gain of 299 thousand Euro in 2005. This capital gain has an effect on the financial result of the year, net of taxes, of 188 thousand Euro.

For information purposes, it should be mentioned that the capital loss in 1999 had a net effect of 622 thousand Euro, the loss in 2000 of 400 thousand Euro, the capital gain in 2001 of 69 thousand Euro, the capital gain in 2002 of 165 thousand Euro, the capital gain in 2003 of 44 thousand Euro and the capital gain in 2004 of 451 thousand Euro.



## 2.2. - Changes in investment securities during the year

The following changes took place with regard to investment securities:

(Table B.2.2.)	(in thousands of Euro)	
<b>A. Balance as at 31/12/2004</b>		<b>5,981</b>
<b>B. Increases</b>		<b>1</b>
B1. Purchases	--	--
- Debt securities	--	
+ government securities	--	
+ other securities	--	
- Equities	--	
B2. Write-backs and revaluations	--	
B3. Transfer from dealing portfolio	--	
B4. Other changes	1	
<b>C. Decreases</b>		
C1. Sale and payment	--	
- Debt securities	--	
+ government securities	--	
+ other securities	--	
- Equities	--	
C3. Value adjustments	--	
C4. Transfer to dealing portfolio	--	
C5. Other changes	--	
<b>D. Balance as at 31/12/05</b>		<b>5,982</b>

## 2.3. - Dealing securities

At the balance sheet date, these amounted to 531,732 thousand Euro and are broken down as follows:

(Table B.2.3.)	(in thousands of Euro)	
Items	Book value	Market value
<b>1. Debt securities</b>		
1.1. Government securities		
- listed	76,552	76,584
- unlisted	--	--
1.2. Other securities		
- listed	147,730	147,999
- unlisted	258,306	259,332
<b>2. Equities</b>		
- listed	5,501	5,678
- unlisted	43,643	44,995
<b>Total</b>	<b>531,732</b>	<b>534,588</b>

The valuation of securities showed a capital loss of 774 thousand Euro, charged to the income statement. As seen in the Table above, the above-mentioned capital loss could be offset by potential off-balance sheet capital gains amounting to 2,856 Euro (3,006 thousand Euro in the previous year) compared to market values, as defined in "Part A – Section 1, point 2.2", on valuation standards. Additionally, shares owned by the bank were revalued for 50 thousand Euro, where the reasons for the value adjustment made the previous year charged to the income statement for the financial year were partially or fully no longer valid, .

## 2.4. - Changes in dealing securities during the year

The volumes traded during the year, broken down by type of security, are shown below:

(Table B.2.4.)	(in thousands of Euro)	
<b>A. Balance as at 31/12/2004</b>		<b>503,868</b>
<b>B. Increases</b>		<b>2,594,683</b>
B1. Purchases	2,591,269	
- Debt securities	2,584,251	
+ government securities	420,972	
+ other securities	2,163,279	

- Equities	7,018	
B2. Write-backs and revaluations	50	
B3. Transfer from investment portfolio	--	
B4. Other changes	3,364	
<b>C. Decreases</b>		<b>2,566,819</b>
C1. Sale and payment	2,565,244	
- Debt securities	2,564,228	
+ government securities	458,545	
+ other securities	2,105,683	
- Equities	1,016	
C2. Value adjustments	774	
C3. Transfer to investment portfolio	--	
C5. Other changes	801	
<b>D. Balance as at 31/12/05</b>		<b>531,732</b>

## Section 3 – Equity investments

### 3.1. Significant equity investments

- Significant equity investments amounted to 3,616 thousand Euro.
- Other equity investments amounted to 9,741 thousand Euro.

(Table B.3.1.)

(in thousands of Euro)

Company name	Activity	Registered offices	Shareholders' equity	Profit (loss) for the year	Shares held %	Book balance
<b>Subsidiaries of the group</b>						
- Berger S.p.A.	financial services	Bolzano	4,989	-8	100.0	992
<b>- TOTAL EQUITY INVESTMENTS IN GROUP COMPANIES (Item 80)</b>						<b>992</b>
<b>Subsidiaries outside the group</b>						
- Optima-Broker Banca Pop.Alto Adige Srl	insurance broker	Bolzano	2,435	216	100.0	1,917
- Immobiliare A & A Srl	real estate	Bolzano	404	218	100.0	33
<b>- Total equity investments in subsidiaries outside the group</b>						<b>1,950</b>
<b>Companies subject to significant influence</b>						
- Casa di cura Villa S. Anna S.r.l.	senior citizens home	Merano	905	-145	35.00	516
- Argentea S.p.A.	IT consulting	Trento	708	13	20.91	158
<b>- Total equity investments in companies subject to significant influence</b>						<b>674</b>
<b>Other investee companies outside the group:</b>						
- SEC Servizi S.c.p.A., Padua					16.62	4,144
- Mediocredito Trentino Alto Adige, Trento					2.89	2,464
- C.I.S. S.p.A., Villafranca di Verona					4.17	2,427
- Centrosim S.p.A., Milan					0.90	155
- Istituto Centrale Banche Popolari Italiane, Milan					0.51	152
- Banca Popolare Italiana, Lodi					0.01	87
- Airport Bolzano Dolomiti, Bolzano					0.26	52
- Banca Italease S.p.A., Milan					0.02	44
- BIC-Business Innovation Centre S.c.p.A., Bolzano					5.33	41
- Unione Fiduciaria S.p.A., Milan					0.57	40

- Euros S.p.A., Rome	0.33	36
- S.W.I.F.T., Brussels	0.02	28
- Fiera Bolzano S.p.A., Bolzano	0.28	26
- Centro Pensioni Complementari Regionali S.p.A., Bolzano	0.01	26
- SI Holding S.p.A., Rome	0.07	16
- Società Interbancaria per l'Automazione S.p.A., Milan	0.01	2
- Siteba S.p.A., Rome	0.02	1
- SSB Servizi Bancari S.p.A., Milan	0.02	--
<b>- Total equity investments in subsidiaries outside the group</b>		<b>9,741</b>
<b>- TOTAL EQUITY INVESTMENTS NOT IN GROUP COMPANIES (Item 70)</b>		<b>12,365</b>
<b>TOTAL EQUITY INVESTMENTS</b>		<b>13,357</b>

Below are the equity relations in place with investee companies at the balance sheet date:

(Table B.3.2. and B.3.3.) (in thousands of Euro)

	Assets and liabilities with group	Assets and liabilities with other investee companies
<b>A. Assets:</b>		
1. due from banks	--	152
2. due from financial institutions	8,307	--
3. due from other customers	--	7,644
4. bonds and other debt securities	--	3,528
<b>B. Liabilities:</b>		
1. due to banks	--	45,090
2. due to financial institutions	--	--
3. due to other customers	--	2,056
4. securities issued	--	2,740
5. subordinated liabilities	--	--
<b>C. Guarantees and commitments:</b>		
1. guarantees granted	--	1,121
2. commitments	--	1,318

### 3.4. - Break-down of item 70 "Equity investments"

### 3.5. - Break-down of item 80 "Equity investments in group companies"

Breakdown of equity investments (internal and external to the group) by activity carried out by the companies.

(Table B.3.4. and B.3.5.)

(in thousands of Euro)

	Equity investments in group companies (Item 80)	Equity investments in companies outside the group (Item 70)
(a) In banks:		
1. listed	--	131
2. unlisted	--	2,616
(b) In financial companies:		
1. listed	--	--
2. unlisted	992	195
(c) Other:		
1. listed	--	--
2. unlisted	--	9,423
<b>Total</b>	<b>992</b>	<b>12,365</b>

Equity investments underwent the following changes in 2005:

(Table B.3.6.1. and B.3.6.2.)

	Equity investments in group companies (Item 80)	(in thousands of Euro)	Equity investments in companies outside the group (Item 70)
<b>A. Opening balance</b>	<b>992</b>		<b>10,608</b>
<b>B. Increases:</b>			
B.1 acquisitions	--		1,784
B.2 write-backs	--		--
B.3 revaluations	--		--
B.4 other changes	--		--
<b>C. Decreases:</b>			
C.1 sales	--		27
C.2 value adjustments	--		--
of which:			
accumulated	--		--
impairment losses	--		--
C.3 other changes	<b>992</b>		<b>12,365</b>
<b>D. Closing balance</b>	<b>--</b>		<b>--</b>
<b>E. Total revaluations</b>	<b>1,038</b>		<b>655</b>
<b>F. Total adjustments</b>			

The changes during the year were the following:

	Book value (in thousands of Euro)
<b>- acquisitions:</b>	
- SEC Servizi S.c.p.A., Padua: share capital increase and change in unit nominal value from 0.52 Euro to 1.00 Euro	1,755
- Immobiliare A&A S.r.l., Bolzano: share capital increase from 10,000 Euro to 20,000 Euro	23
- Banca Italease S.p.A., Milan: increase of 1,442 shares, nominal unit value of 5.16 Euro due to the incorporation of Factorit S.p.A., Milan	6
<b>- disposals:</b>	
- SEC Solutions S.c.p.A., Padua: sale of 209 shares, nominal unit value of 100.00 Euro	21
- Factorit S.p.A., Milan: sale of 6,438 shares, nominal unit value of 1.00 Euro due to the incorporation of Banca Italease S.p.A., Milan	6

#### **- accumulated impairment losses**

No impairment losses were recorded in 2005.

### **Section 4 - property, plant and equipment and intangible assets**

#### **4.1. - Yearly changes in property, plant and equipment (Item 100)**

The item is broken down as follows:

	(in thousands of Euro)
- property	13,562
- plant and equipment	20,390
<b>-Total</b>	<b>33,952</b>

The movement during the year was the following:

(Table B.4.1.)

	Property	EDP machines	Fixtures and fittings	(in thousands of Euro)	Plants and equipment	Total
<b>A. Balance as at 31/12/04</b>	<b>13,757</b>	<b>1,509</b>	<b>10,317</b>		<b>4,785</b>	<b>30,368</b>
<b>B. Increases:</b>						
B.1 acquisitions	650	1,227	908		620	3,405

B.2 write-backs	--	--	--	--	--
B.3 revaluations	--	941	4,215	2,039	7,195
B.4 other changes	--	--	--	--	--
<b>C. Decreases:</b>					
C.1 sales	-21	-18	-27	-32	-98
C.2 value adjustments:					
(a) depreciation in the year	-824	-1,372	-2,877	-1,845	-6,918
(b) accumulated impairment losses	--	--	--	--	--
C.3 other changes					
<b>D. Balance as at 31/12/05</b>	<b>13,562</b>	<b>2,287</b>	<b>12,536</b>	<b>5,567</b>	<b>33,952</b>
<b>E. Total revaluations</b>	7,010	2,042	12,414	5,895	27,361
<b>F. Total adjustments:</b>					
(a) depreciation	14,232	13,635	14,186	9,395	51,448
(b) accumulated impairment losses	--	--	--	--	--

The changes during the year were the following:

**a) Property increases** (in thousands of Euro)

- building in Merano, Piazza del Grano	205
- building in Merano, Via Matteotti	445
	<b>650</b>
<b>decreases</b>	
- car park in Merano, Piazza del Grano	21
	<b>21</b>

**b) Plant and equipment increases** (in thousands of Euro)

- DPC electronic equipment	1,227
- ordinary office furniture	676
- fittings	232
- other equipment and machinery	160
- vehicles	111
- internal communications systems	51
- alarm systems	243
- ordinary office machines	55
- lift systems	--
	<b>2,755</b>
<b>decreases</b>	
- DPC electronic equipment	18
- armoured counters	27
- ordinary office machines	32
	<b>77</b>
<b>revaluations</b>	
- DPC electronic equipment	941
- fixtures and fittings	4,215
- machines and plants	2,039
	<b>7,195</b>

As at 31 December 2005 there were no advances paid for the purchase of property, plant and equipment.

**4.2. - Yearly changes in intangible assets (Item 90)**

Intangible assets with long-term charges, net of amortisation carried out, amounted to 4,108 thousand Euro, broken down as follows as at the balance sheet date.

	(in thousands of Euro)
Costs for purchasing software (total amortisation carried out 44.52 %)	511

Costs for renovating premises not owned (total amortisation carried out 55.24 %)	3,556
Other long-term charges (total amortisations carried out 71.63%)	41
<b>Total</b>	<b>4,108</b>

The Bank decided to revalue tangible assets in application of provisions set forth in art. 1 of Law 266/2005, incorporating Law 342 of 21 November 2000, for a total of 7,195 thousand Euro.

Values attributed to assets, with regard to their substance, to their production capacity, to the actual possibility of use, not exceeding the limit set forth in paragraph two of art. 11 of Law 342/2000.

Overall, the historical cost of these assets was revalued at 1,279 thousand Euro to reach the current value and for the excess the accumulated depreciation was reduced to 5,916 thousand Euro.

In compliance with legal provisions the revaluated amount net of substitute tax was allocated to a special reserve, included in shareholders' equity. The substitute tax of 863 thousand Euro was recorded under payable taxation amounts owed in the financial statements as at 31 December 2005 and will be paid according to the terms and methods set forth in the above-mentioned art. 1, paragraph 471 of Law 266/2005.

(Table B.4.2.)

	(in thousands of Euro)			
	Purchase of software	Costs for renovating premises not owned	Other	Total
<b>A. Balance as at 31/12/04</b>	<b>317</b>	<b>4,279</b>	<b>47</b>	<b>4,643</b>
<b>B. Increases:</b>				
B.1 acquisitions	554	1,198	--	1,752
B.2 write-backs	--	--	--	--
B.3 revaluations	--	--	--	--
B.4 other changes	--	--	--	--
<b>C. Decreases:</b>				
C.1 sales	--	--	--	--
C.2 value adjustments:				
(a) amortizations	-360	-1,921	-6	-2,287
(b) accumulated impairment losses	--	--	--	--
C.3 other changes	--	--	--	--
<b>D. Balance as at 31/12/05</b>	<b>511</b>	<b>3,556</b>	<b>41</b>	<b>4,108</b>
<b>E. Total revaluations</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>F. Total adjustments:</b>				
(a) amortizations	410	4,389	102	4,901
(b) accumulated impairment losses	--	--	--	--

## Section 5 – Other items under assets

### 5.1. - Break-down of item 130 “Other assets”

This item shows a balance of 56,688 thousand Euro and is broken down as follows:

(Table B.5.1.)

	(in thousands of Euro)	
	31/12/05	31/12/04
Due from Inland revenue:		
– tax credits for direct/taxes relating to prior years for principal and interest	32	266
- tax credits on staff severance indemnity account	619	762
- tax credits for withholdings on interest	--	6
- tax accounts for the year	15,604	16,645
- withholdings during the year	57	49
- deferred taxes	859	1,805
Currency discount on bill portfolio transactions	--	--
Unprocessed transactions with branches	--	--
Other debtors:		

- guarantees	40	33
- primary arrears of contributions	--	--
- unprocessed transactions	31,731	31,862
- other suspended items (items awaiting final recording)	744	13,419
- accrued and overdue income receivable	6,117	5,018
Options (premiums paid)	--	--
Valuation counterbalances:		
- derivative contracts	495	1,021
Other balances (notes on hand with cashier etc.)	390	490
<b>Total</b>	<b>56,688</b>	<b>71,376</b>

The above amounts are all realisable, thus no value adjustments were made.

## 5.2. - Break-down of item 140 "Accrued income and prepaid expenses"

As at 31 December 2005 this group amounted to 14,986 thousand Euro and includes:

(Table B.5.2.)	(in thousands of Euro)	
	31/12/05	31/12/04
<b>Accrued income:</b>		
- interest income on securities	5,365	2,426
- interest income on repurchase agreement transactions to customers/banks	491	530
- interest on financing to customers	3,822	3,312
- interest income on banks and the Bank of Italy	329	51
- interest on derivative hedging contracts	4,631	4,568
<b>Total</b>	<b>14,638</b>	<b>10,887</b>
<b>Prepaid expenses:</b>		
- insurance companies	158	180
- other administrative costs	190	261
<b>Total</b>	<b>348</b>	<b>441</b>
<b>Total accrued income and prepaid expenses</b>	<b>14,986</b>	<b>11,328</b>

## 5.3. - Adjustments for accrued income and prepaid expenses

Negative.

## 5.4. - Distribution of subordinate assets

	(in thousands of Euro)
a) due from banks	--
b) due from customers	--
c) bonds and other debt securities	3,196

Securities with subordination clauses as at 31/12/2005 amounted to 3,209 thousand Euro and comprise shares of subordinated bond loans issued by Banks.

## Section 6 – Payables

### 6.1. - Breakdown of item "due to banks" (Item 10)

Below is the break-down by type amounting to 524,841 thousand Euro:

(Table B.6.1.)	(in thousands of Euro)			
	31/12/05	%	31/12/04	%
Due to the Bank of Italy	--	--	--	--
Total:	--	--	--	--
Due to banks:				
- for current accounts	15,840	3.0	14,437	4.2
- for deposits	502,945	95.8	304,841	89.7
- for financing	--	--	--	--
- for repos and reverse repos	6,056	1.2	20,589	6.1

- for securities lending	--	--	--	--
<b>Total:</b>	<b>524,841</b>	<b>100.0</b>	<b>339,867</b>	<b>100.0</b>
<b>Grand total</b>	<b>524,841</b>	<b>100.0</b>	<b>339,867</b>	<b>100.0</b>

## 6.2. - Breakdown of item "due to customers" (Item 20) and "securities issued" (Item 30)

At year-end deposits amounted to 2,910,467 thousand Euro and are composed of amounts due to customers as savings deposits and current accounts for 1,349,764 thousand Euro, securities issued (certificates of deposit, own bonds issued and other debt securities) for 1,486,553 thousand Euro, of which 125,000 thousand Euro to banks and repurchase agreement transactions for 74,150 thousand Euro.

The break-down of deposits by type is set forth below:

(Table B.6.2.)	(in thousands of Euro)			
	31/12/05	%	31/12/04	%
Due to customers:				
- current accounts	1,028,451	35,3	938,594	34.7
- savings deposits	321,313	11,0	358,093	13.3
- for repos and reverse repos	74,150	2,6	90,126	3.3
- for securities lending	--	--	--	--
Securities issued:				
- bonds	1,407,171	48,4	1,220,472	45.2
- certificates of deposit	9,382	0,3	9,344	0.3
- other	70,000	2,4	85,000	3.2
<b>Total</b>	<b>2,910,467</b>	<b>100,0</b>	<b>2,701,629</b>	<b>100.0</b>
of which:				
- ordinary	2,910,467	100,0	2,701,629	100.0
- property	--	--	--	--
- agricultural	--	--	--	--
- industrial	--	--	--	--
<b>Total</b>	<b>2,910,467</b>	<b>100,0</b>	<b>2,701,629</b>	<b>100.0</b>

## 6.3. - Third-party funds in administration (Item 40)

These amount to 44,390 thousand Euro.

The increase of 8,242 thousand Euro during the financial year can be attributed to:

- refinancing for 15,534 thousand Euro;
- decreases for reconveyance of provisions and for change in funds due to asset management operations for 7,292 thousand Euro.

Asset management was characterised by the conclusion of loans and low-interest mortgages to customers as per Law 910 of 1966, Provincial Law no. 9 of 1991 of the Autonomous Province of Bolzano, Regional Law no. 18 of 1994, no. 1 of 1999 and no. 2 of 2002 of the Veneto Region.



## Section 7 – Provisions

### Provisions for staff severance indemnities (Item 70)

This item shows a balance of 22,529 thousand Euro and underwent the following changes in 2005:

(in thousands of Euro)

<b>Balance as at 31/12/2004</b>	<b>20,929</b>
Use during the year	-988
Allocations during the year	2,588
<b>Balance as at 31/12/05</b>	<b>22,529</b>

### Provisions for risks and charges (80)

This item shows a balance of 19,612 thousand Euro and is broken down as follows:

	(in thousands of Euro)			
	<b>Balance as at 31/12/04</b>	<b>Use</b>	<b>Allocations</b>	<b>Balance as at 31/12/05</b>
a) Provision for pensions (*):	--	--	--	--
b) Provision for taxation	13,906	-13,841	17,817	17,882
c) Other provisions:				
- provision for guarantees granted	145	-130	8	23
- provision for risks and charges	3,427	-2,475	755	1,707

(\*) The provision for complementary pension for personnel is formed by PREVIBANK, a pension fund for bank employees where contributions are deposited both by the bank and the employee.

### 7.1. - Break-down of item 90 “Provision for possible loan losses”

The provision for possible loan losses amounted to 42,782 thousand Euro, comprising both a share for principal and a share for interest.

### 7.2. - Changes during the year of “Provision for possible loan losses” (90)

(Table B.7.2.)

	(in thousands of Euro)
<b>A. Balance as at 31/12/2004</b>	<b>32,888</b>
B. Increases:	
B.1. allocations	12,537
B.2 other changes	--
C. Decreases:	
C.1. uses	116
C.2 other changes	2,527
<b>D. Total closing balance as at 31/12/2005</b>	<b>42,782</b>

### 7.3. - Break-down of sub-item 80c) “provision for risks and charges: other provisions”

This item amounted to 1,730 thousand Euro. To cover possible impairment in guarantees granted by our bank, allocations were made amounting to 23 thousand Euro, while 1,707 thousand Euro was allocated to the provision for risks and charges.

### Provision for duties and taxation

This item includes the debt for taxation charges calculated as 17,817 thousand Euro.

Allocations for direct taxes for the year are gross of accounts paid, withholdings incurred or recorded on issue differences for bonds and tax credits on dividends collected, all included under item 130 of assets for a total of 15,661 thousand Euro.

Deferred taxation was recorded in the financial statements as at 31 December 2005 taking into account indications contained in the notice issued by the Bank of Italy in August 1999 and in Consob communication no. 99059010 of 30 July 1999 and, where there are no specific provisions, following international accounting standards (IAS 12).

## **1. DEFERRED TAX ASSETS AND LIABILITIES RELATED TO EVENTS OR TRANSACTIONS THAT CONCERNED THE INCOME STATEMENT**

In order to calculate amounts to be recorded in the accounts, it is first of all necessary to identify the deductible and taxable temporary differences. This determination has certain effects on the income statement for financial years where the items were recorded, in terms of higher or lower taxes paid.

All the temporary deductible and taxable differences were classified as time differences that can be defined, identifying those where, based on regulations contained in the consolidated law on income tax, it is possible to identify with certainty the time of recovery and which is possible based company plans.

Specific examples concern entertainment expenses (recovered in fifths), guarantee write-downs (recovered in the year the guarantee is enforced, foreseen as 2006), capital gains realised (taxed in fifths), in addition to capital losses on equity investments (recovered in fifths) and the "Bonus Banking" plan to be recovered in 2006. Included among the amounts to be recovered are the positions not yet settled and under negotiation with customers of our branch in Domegge, "complaint suits" and the "revocation suit" with customers, to be defined in 2006.

In compliance with the principle of "reasonable certainty" that future taxable income will be realised to allow actual recovery of tax benefits, a comparison was carried out between net temporary differences (deductible minus taxable differences) for each year and the taxable income forecast for the years covered by the strategic plan. This comparison showed that for the years covered by the strategic plan, the net temporary differences were less than the taxable income forecast and therefore were fully usable for recording in the accounts. Thus, in this timeframe, the accounting recording coincides with timeframes for tax recovery set forth by the consolidated law on income tax; that is, to the end of 2008 for deferred taxes referring to previous financial years and to 2009 for deferred taxes referring to the current financial year.

Consequently, deferred tax assets and liabilities were recorded applying, separately for IRES and IRAP purposes, the tax rates which are currently known and will be in force in the future for each financial year.

Furthermore, in compliance with the provisions of the Bank of Italy, it was also ascertained whether and in what measure the conditions will be in place to conserve in the financial statements the deferred tax assets and liabilities recorded in previous financial statements.

In consideration of the circumstance where the amount of deferred tax liabilities is less than the amount of deferred tax assets, when the figures for the financial statements were being prepared the deferred tax liabilities were compensated by deferred tax assets. The compensation was performed taking into account that set forth in the provisions of the Bank of Italy, which allow such compensation only if it refers to the same tax and is due in the same time period.

## **2. DEFERRED TAX ASSETS AND LIABILITIES RELATED TO SHAREHOLDERS' EQUITY**

The following information emerged from the analysis:

for the deferred taxation provisions and for provisions for possible loan losses no distributions are foreseen. Thus deferred taxation was not recorded; presently, this taxation is only latent.

## **3. CONTENTS OF TABLES IN THE NOTES TO THE ACCOUNTS**

In compliance with prescriptions contained in the Notice of the Bank of Italy, the tables in the notes to the accounts were completed to show the changes in items related to Deferred tax assets (Tab. A) and Deferred tax liabilities (Tab. B), included below, in addition to the item related to year-end income tax.

### (Tab. A) Deferred tax assets

(Table B.7.4.)

(in thousands of Euro)

	<b>AMOUNT</b>
<b>1. Opening balance</b>	<b>1,911</b>
2. Increases	
2.1 Deferred tax assets recognized during the year	249
2.2 Other increases	290
3. Decreases	
3.1 Deferred tax assets cancelled during the year	-1,530
3.2 Other decreases	--
<b>4. Closing balance</b>	<b>920</b>

### (Tab. B) Deferred tax liabilities

(Table B.7.5.)

(in thousands of Euro)

	<b>AMOUNT</b>
<b>1. Opening balance</b>	<b>106</b>
2. Increases	
2.1 Deferred taxes recognized during the year	--
2.2 Other increases	--
3. Decreases	
3.1 Deferred taxes cancelled during the year	-45
3.2 Other decreases	--
<b>4. Closing balance</b>	<b>61</b>

To add to and describe the figures in the tables in question, the following should be mentioned concerning tables pertaining to deferred tax assets and liabilities deriving from temporary differences involving the income statement:

- **opening balances** of deferred tax assets and liabilities refer to closing balances in the balance sheet as at 31 December 2004;
- **increases** in deferred tax assets and liabilities refer to situations, relevant for IRES (corporate tax) and IRAP (regional business tax) purposes, which arose during the financial year following new temporary differences pertaining to future financial years;
- **decreases** pertain to cancelled deferred tax assets and liabilities during the financial year as they were recovered. The counterbalances of the increases and decreases were converted, with an appropriate mark, in the table showing income tax movement for the financial year;
- **the other increases and decreases** mainly pertain to changes for recalculations at tax rates that changed as a result of tax breaks.

It should also be mentioned that deferred taxation on equity reserves as at 31 December 2005 amounted to a total of 30,339 thousand Euro.

At the end of 2005, the taxation position of the bank was the following:

concerning V.A.T. and all the other direct and indirect taxes there are no audits or disputes underway against the bank.

Petitions for refund were submitted by the bank due to the fact that IRAP is unconstitutional. These petitions for refund of 20,160 thousand Euro pertain to the years 1998 to 2004.

### Section 8 – Capital, equity reserves, reserve for general banking risks and subordinated liabilities

The following items constitute the net shareholders' equity of the bank amounting to 339,463 Euro:

	(in thousands of Euro)
item 120 Capital	63,037
item 130 Share premium reserve	97,171
item 140 Reserves:	
a) legal reserve	72,700
b) reserve for treasury shares (unavailable)	

	c) statutory reserves		32,545
	d) other reserves:		
	- for purchasing treasury shares - available		4,183
	- special reserve as per Legislative Decree 30/07/90 no. 218		10,278
	- reserve for stock granting in the future in favour of employees		117
item 150	Revaluation reserves:		
	Law 74/1952	2	
	Law 576/1975	588	
	Law 72/1983	4,492	
	Law 413/1991	3,200	
	Law 448/2001	7,931	
	Law 350/2003	5,844	
	Law 266/2005	6,332	28,389
item 160	Profit carried forward		--
item 170	Year-end profit allocated to shareholders' equity (according to the proposal for dividing net profit)		6,143
			<b>314,563</b>
item 100	Reserve for general banking risks		24,900
			<b>339,463</b>

### Total net shareholders' equity

### Net shareholders' equity

The movement of each item under net shareholders is provided in the annex. Concerning each item, the following is pointed out:

- **share capital (item 120):** this is entirely subscribed and paid up, and consists of 31,518,472 ordinary shares at 2.00 Euro each for a total of 63,037 thousand Euro. During the year the share capital rose by a total of 1,212,172 shares, all due to share capital increase subscribed by shareholders;
- **share premium reserve (item 130):** the increase in share capital subscribed by shareholders moved this item, which is now at 97,171 thousand Euro;
- **legal reserve (item 140 a):** this increased by 4,600 thousand Euro, the share of profit allocated in 2004, and is now recorded at 72,700 thousand Euro;
- **reserves for treasury shares (item 140 b):** the reserve is available, and is listed under "other reserves" since at item 120 (treasury shares) under assets there were no purchases of treasury shares drawn from the reserve;
- **statutory reserves (item 140 c):** the statutory reserve increased by the share of profit allocated in 2004, amounting to 1,695 thousand Euro;
- **other reserves (item 140 d):** this item includes the reserve to purchase treasury shares, which is available and unchanged at 4,183 thousand Euro, the special reserve as per Law 30/7/90 no. 218 (known as Amato Law), which amounts to 10,278 thousand Euro and the reserve for future increases in share capital in favour of employees (stock granting) for 117 thousand Euro;
- **reserve for general banking risks (item 100):** this amounts to 24,900 thousand Euro for the reserve for general banking risks calculated following the allocation of 2,400 thousand Euro;
- **revaluation reserves (item 150):** this was recorded at 28,389 thousand Euro. The increase in the item for a total of 6,332 thousand Euro is described in depth in the section on assets, section 4.1.

Attached is the statement of revaluation of property assets still under equity. It should also be mentioned that there are no encumbrances on the availability of items contained under net shareholders' equity since:

- pursuant to art. 16, c. 1 of Legislative Decree 87/1992, the total amount of intangible assets recorded in the financial statements at 4,108 thousand Euro and still to be amortized is covered by available reserves and so dividends can be paid;
- there are no reserves that are not available, allocated as per art. 19, paragraph 5, Legislative Decree 87/1992, pertaining to equity investments valued using the equity method;
- there are no reserves that are not available, allocated as per art. 2, paragraph 5, Legislative Decree 87/1992, pertaining to derogations to asset valuation policies based on current law.

## 8.1. – Regulatory capital and prudential requirements

The regulatory capital and prudential requirements of the bank as set by the regulatory instructions as at 31/12/2005 are detailed below:

(Table B.8.1.)

(in thousands of Euro)

Categories/Values	Amount
<b>A. Regulatory capital</b>	
A.1. Tier 1 capital	306,967
A.2. Tier 2 capital	59,833
A.3 Elements to deduct	1,917
A.4. Regulatory capital	364,883
<b>B. Prudential regulatory requirements</b>	
B.1. Credit risks	235,758
B.2. Market risks (including 3 <sup>rd</sup> level subordinate loans), of which:	7,119
- trading portfolio risks	7,119
- exchange rate risks	--
- concentration risks	--
B.2.1. 3 <sup>rd</sup> level subordinate loans	--
B.3. Other prudential requirements	--
B.4. Total prudential requirements (including 3 <sup>rd</sup> level subordinate loans)	242,877
<b>C. Risk assets and regulatory ratios</b>	
C.1. Weighted risk assets	3,469,665
C.2. Tier 1 capital/Weighted risk assets	8.85%
C.3. Regulatory capital/Weighted risk assets	10.52%

## Section 9 – Other liabilities

### 9.1. – Breakdown of item 50 ‘other liabilities’

This item amounts to 52,411 thousand Euro and is broken down as follows:

(Table B.9.1.)

(in thousands of Euro)

	31/12/05	31/12/04
Due to inland revenue	5,842	3,923
Currency differences on security portfolio transactions	29,027	27,128
Items in transit with branches	--	--
Amounts available to other (banks, suppliers, etc.)	6,109	8,234
Amounts available to customers	1,968	3,379
Items in progress (bank transfers etc.)	4,465	3,689
Withholdings on equity accruals	--	--
Other items for sundry creditors	4,470	2,688
Options (collected premiums)	--	--
Valuation balancing entries:		
- derivatives	530	977
<b>Total</b>	<b>52,411</b>	<b>50,018</b>

### 9.2. – Breakdown of item 60 ‘Accrued expenses and deferred income’

It amounts to 8,682 thousand Euro and is broken down as follows:

(Table B.9.2)

(in thousands of Euro)

	31/12/05	31/12/04
<b>Accrued expenses:</b>		
- interest expense on certificates of deposit and time deposits of customers	33	31
- interest on bonds	6,896	6,574
- interest expense on transactions on behalf of customers/banks	257	255
- interest expense on banks	1,270	1,255
- interest on other own securities issued	--	37
- interest expense on hedging derivatives	8	8
- sundry administrative costs	193	25
<b>Total accrued expenses</b>	<b>8,657</b>	<b>8,185</b>
<b>Deferred income:</b>		
- on portfolio transactions	25	35
- other	--	--
<b>Total deferred income</b>	<b>25</b>	<b>35</b>
<b>Total accrued income and deferred expenses</b>	<b>8,682</b>	<b>8,220</b>

### 9.3. - Adjustments for accrued expenses and deferred income

Negative

## Section 10 – Guarantees and commitments

### 10.1. – Breakdown of item ‘guarantees given’ (item 10)

The guarantees given by the bank equal to 413,773 thousand Euro are represented as follows:

(Table B.10.1.)

(in thousands of Euro)

	31/12/05	31/12/04
a) Commercial guarantees:		
- documentary credits	4,909	1,757
- endorsements	--	--
- sureties	389,272	336,279
<b>Total</b>	<b>394,181</b>	<b>338,036</b>
b) Financial guarantees:		
- banker’s acceptances	--	--
- endorsements	--	--
- sureties	19,592	24,396
<b>Total</b>	<b>19,592</b>	<b>24,396</b>
(c) Assets lodged as collateral	--	--
<b>Grand total</b>	<b>413,773</b>	<b>362,432</b>

### 10.2. – Breakdown of item ‘commitments’ (item 20)

Item ‘commitments’, which is equal to 13,845 thousand Euro, is broken down as follows:

(Table B.10.2.)

(in thousands of Euro)

	31/12/05	31/12/04
<b>a) Commitments to disburse funds for certain use:</b>		
- commitments for deposits and funding to be granted to banks	1,620	--
- commitments for loans and funding granted to customers	--	--
- commitments for purchases of securities not yet settled	7,076	7,260
<b>Total</b>	<b>8,696</b>	<b>7,260</b>
<b>b) Commitments to disburse funds for uncertain use:</b>		
- commitments for loans to be granted to customers	--	--

- commitment with the Fondo Interbancario di Tutela Depositi	3,830	3,576
- commitment for transactions with third-party funds in administration	--	--
- other commitments	1,319	1,144
<b>Total</b>	<b>5,149</b>	<b>4,720</b>
<b>Grand total</b>	<b>13,845</b>	<b>11,980</b>

The risk associated to the guarantees given and commitments to disburse funds is valued in the same way as cash loans, and is adjusted indirectly, for the part that is considered doubtful, by setting up a special provision for risks and charges under liabilities.

### 10.3. – Assets lodged as collateral for own debts

Assets lodged as collateral by the bank for own liabilities (B.10.3.) are represented by securities:

- that guarantee the loan with the Bank of Italy for the nominal value of 56,500 thousand Euro;
- used in collection repurchase agreements for the nominal value of 79,440 thousand Euro.

### 10.4. – Unused lines of credit

At year end, the bank has no unused lines of credit.

### 10.5. – Forward transactions

At year end, the bank's commitments included the following forward transactions for own account, while forward transactions related to trading on behalf of third parties are listed in the following section 12:

(Table B.10.5.)

(in thousands of Euro)

Transactions to be settled	hedging	trading	other transactions
<b>1. Trading:</b>			
1.1 securities			
- purchases	--	7,076	--
- sales	--	4,222	--
1.2 currencies			
- currency against currency	--	233	--
- purchases against Euro	--	37,736	--
- sales against Euro	--	38,127	--
<b>2. Deposits and funding:</b>			
- to be disbursed	--	1,620	--
- to be received	--	36,849	--
<b>Grand total</b>	--	<b>125,863</b>	--

Trading forward transactions as at the balance sheet date, valued at the lower of purchase cost or the corresponding market value, do not generate any surpluses with respect to the prices and rates applicable at year end.

### 10.6. – Credit derivatives

It is left out, since it is negative.

### 10.7. – Financial derivatives broken down by type (notional amounts)

Type of operations / underlying	Debt securities and interest rates			Equity securities and share indices			Exchange rates and gold			Other securities		
	trading	hedging	other transactions	trading	hedging	other transactions	trading	hedging	other transactions	trading	hedging	other transactions
1. Forward rate agreements		323,117										
2. Interest rate swaps												
3. Domestic currency swaps												
4. Currency interest rate swaps												
5. Basis swaps		92,196										
6. Share index swaps												
7. Real index swaps												
8. Futures												
9. Cap options												
- purchased												
- issued												
10. Floor options												
- purchased												
- issued												
11. Other options												
- purchased												
- Plain vanilla												
- Exotic												
- issued												
- Plain vanilla												
- Exotic												
12. Other derivatives												

### 10.8. – Financial derivatives: trading of the underlying (notional amounts)

Type of operations / underlying	Debt securities and interest rates			Equity securities and share indices			Exchange rates and gold			Other securities		
	trading	hedging	other transactions	trading	hedging	other transactions	trading	hedging	other transactions	trading	hedging	other transactions
1. Transactions with capital swap												
- Purchases							7,900					
- Sales							36,852					
- Currency against currency												
2. Transactions without capital swap												
- Purchases		417,986										
- Sales		92,196	2,673									
- Currency against currency												

Hedging derivatives without capital swap include 92,196 thousand Euro of 'basis swaps' recorded both under purchases and sales.

Derivatives without capital swap 'other transactions' relate to implicit options on bonds and are recorded here according to the relevant instructions of the Supervisory Authority.



**10.9. – ‘Over-the-counter’ financial derivatives: counterparty risk**

Counterparties / underlying	Debt securities and interest rates				Equity securities and share indices				Exchange rates and gold				Other securities			
	Notional amount	Positive fair value		Future exposure	Notional amount	Positive fair value		Future exposure	Notional amount	Positive fair value		Future exposure	Notional amount	Positive fair value		Future exposure
		Gross	Offset			Gross	Offset			Gross	Offset			Gross	Offset	
<b>A. Trading transactions</b>									8,169	494		86				
A.1 Governments and central banks																
A.2 public entities																
A.3 banks																
A.4 financial companies									2,737	28		27				
A.5 insurance companies																
A.6 non-financial companies									1,568	57		16				
A.7 other entities									3,864	409		43				
<b>B. Hedging transactions</b>	341,140	6,386	1,705													
B.1 Governments and central banks																
B.2 public entities																
B.3 banks	338,901	6,173	1,694													
B.4 financial companies	2,239	213	11													
B.5 insurance companies																
B.6 non-financial companies																
B.7 other entities																
<b>C. Other transactions</b>																
C.1 Governments and central banks																
C.2 public entities																
C.3 banks																
C.4 financial companies																
C.5 insurance companies																
C.6 non financial companies																
C.7 other entities																

## 10.10 Over-the-Counter Financial Derivatives: financial risk

Counterparties/Underlying	Debt securities and interest rates		Equity securities and share indices		Exchange rates and gold		Other securities	
	Negative fair value		Negative fair value		Negative fair value		Negative fair value	
	Gross	Offset	Gross	Offset	Gross	Offset	Gross	Offset
<b>A. Trading transactions</b>					530			
A.1 Governments and central banks								
A.2 public entities								
A.3 banks					511			
A.4 financial companies								
A.5 insurance companies								
A.6 non-financial companies					15			
A.7 other entities					4			
<b>B. Hedging transactions</b>	1,179							
B.1 Governments and central banks								
B.2 public entities								
B.3 banks	1,179							
B.4 financial companies								
B.5 insurance companies								
B.6 non-financial companies								
B.7 other entities								
<b>C. Other transactions</b>								
C.1 Governments and central banks								
C.2 public entities								
C.3 banks								
C.4 financial companies								
C.5 insurance companies								
C.6 non-financial companies								
C.7 other entities								

### 10.11. – Credit derivatives: counterparty risk

No entry as item is negative.

### 10.12. – Credit derivatives: financial risk

No entry as item is negative.

## Section 11 – Concentration and distribution of assets and liabilities

### 11.1 – Major risks

As at 31/12/2005 there are four positions that constitute “major risks” and these total 149,630 thousand Euro. One position equal to 38,999 thousand Euro refers to investments in the non-trading securities portfolio and specifically concerns an asset management company.

As at 31/12/2004 there were four “major risk” positions entrusted by the bank.

Even taking any group links into consideration there are no such positions other than those specified at point 11.1.

## 11.2. - Distribution of amounts due from customers by main debtor categories

(Table B.11.2.)

(in thousands of Euro)

	31/12/05	%	31/12/04	%
(a) Governments	--	--	--	--
(b) Other public entities	8,437	0.3	8,374	0.3
(c) Non-financial companies	1,810,787	56.6	1,611,254	57.1
(d) Financial companies	38,364	1.2	29,171	1.0
(e) Manufacturing families	304,541	9.5	269,908	9.6
(f) Other operators	1,043,254	32.5	901,104	32.0
<b>Total</b>	<b>3,205,383</b>	<b>100.0</b>	<b>2,819,811</b>	<b>100.0</b>

## 11.3. - Distribution of amounts due from resident non-financial companies and manufacturing families

Distribution of the amounts due from resident non-financial companies and manufacturing families by economic segment breaks down as follows:

(Table B.11.3.)

(in thousands of Euro)

		31/12/05	%
(a) 1 <sup>st</sup> branch of economic activity:	others services that may be destined for sale	404,695	19.4
(b) 2 <sup>nd</sup> branch of economic activity:	building and public works	387,765	18.6
(c) 3 <sup>rd</sup> branch of economic activity:	business services, recoveries and repairs	386,010	18.5
(d) 4 <sup>th</sup> branch of economic activity:	services and hotels	354,817	17.0
(e) 5 <sup>th</sup> branch of economic activity:	agriculture, forestry and fishing	105,927	5.1
(f) Other branches		446,959	21.4
<b>Total</b>		<b>2,086,173</b>	<b>100.0</b>

## 11.4. - Distribution of guarantees given by main counterparty categories

(Table B.11.4.)

(in thousands of Euro)

	31/12/05	%	31/12/04	%
(a) Governments	--	--	--	--
(b) Other public entities	4,190	1.0	5,242	1.5
(c) Banks	976	0.2	706	0.2
(d) Non-financial companies	315,077	76.2	265,456	73.2
(e) Financial companies	6,990	1.7	6,871	1.9
(f) Manufacturing families	20,223	4.9	19,365	5.3
(g) Other operators	66,317	16.0	64,792	17.9
<b>Total</b>	<b>413,773</b>	<b>100.0</b>	<b>362,432</b>	<b>100.0</b>

## 11.5. - Territorial distribution of assets and liabilities

The territorial distribution of relations with counterparties, on the basis of their countries of residence, can be summarised as follows:

(Table B.11.5.)

(in thousands of Euro)

	Italy	Other EU countries	Other countries	Total
<b>1. Assets</b>	<b>3,636,027</b>	<b>160,785</b>	<b>31,545</b>	<b>3,828,357</b>
1.1 due from banks	57,093	23,775	4,392	85,260
1.2 due from customers	3,162,863	41,949	571	3,205,383

1.3 securities	416,071	95,061	26,582	537,714
<b>2. Liabilities</b>	<b>3,236,975</b>	<b>227,307</b>	<b>15,416</b>	<b>3,479,698</b>
2.1 due to banks	313,429	199,835	11,577	524,841
2.2 due to customers	1,392,603	27,472	3,839	1,423,914
2.3 debt securities	1,486,553	--	--	1,486,553
2.4 other accounts	44,390	--	--	44,390
<b>3. Guarantees and commitments</b>	<b>412,803</b>	<b>12,708</b>	<b>2,107</b>	<b>427,618</b>

## 11.6. – Distribution over time of the assets and liabilities

To provide a picture of the cash flow and interest rate risks endured by the bank, the following Table is shown:

(Table B.11.6)

(Amounts in thousands of Euro)

Items/Residual maturities	MATURITY WITH TIME LIMIT							MATURITY WITHOUT TIME LIMIT	Total
	On demand	Up to 3 months	More than 3 months, up to 12 months	More than 1 year, less than 5 years		More than 5 years			
				Fixed rate	Floating rate	Fixed rate	Floating rate		
<b>1. Assets</b>	<b>1,214,926</b>	<b>487,515</b>	<b>626,497</b>	<b>106,922</b>	<b>922,190</b>	<b>44,191</b>	<b>771,995</b>	<b>70,097</b>	<b>4,244,293</b>
1.1. Treasury bills eligible for refinancing	1	718	2,818	40	27,997	16	--	--	31,590
1.2. Due from banks	3,437	55,265	--	--	--	--	--	26,558	85,260
1.3. Due from customers	1,172,917	337,281	321,512	17,462	576,972	35,448	700,252	45,539	3,205,383
1.4. Bonds and other debt securities	102	34,027	21,331	8,036	316,392	5,532	71,560	--	456,980
1.5. Off-balance sheet transactions*	38,469	60,224	280,836	81,384	829	3,195	143	--	465,080
<b>2. Liabilities</b>	<b>1,443,837</b>	<b>923,645</b>	<b>141,251</b>	<b>81,587</b>	<b>1,055,491</b>	<b>3,385</b>	<b>251,192</b>	<b>--</b>	<b>3,900,388</b>
2.1. Due to banks	95,840	429,001	--	--	--	--	--	--	524,841
2.2. Due to customers	1,347,260	60,406	16,248	--	--	--	--	--	1,423,914
2.3 Securities issued:	737	49,260	48,933	81,213	1,053,928	1,808	250,674	--	1,488,553
- bonds	--	45,590	44,494	81,193	983,412	1,808	250,674	--	1,407,171
- certificates of deposit	737	3,670	4,439	20	516	--	--	--	9,382
- other securities	--	--	--	--	70,000	--	--	--	70,000

2.4. Subordinated liabilities	--	--	--	--	--	--	--	--	0
2.5 Off-balance sheet transactions*	--	384,978	76,070	374	1,563	1,577	518	--	465,080
* include deposits and loans effected and to be paid or received, existing off-balance sheet transactions on own behalf associated with securities with fixed income or at interest rates									

### 11.7. – Assets and liabilities in foreign currency

The following components in foreign currency are identifiable within the scope of the bank's financial position:

(Table B.11.7.)

(Amounts in thousands of Euro)

	31/12/05	31/12/04
<b>(a) Assets:</b>		
1. due from banks	56,818	13,057
2. due from customers	66,899	78,760
3. securities	38	34
4. equity investments	--	--
5. other accounts	820	825
<b>Total</b>	<b>124,575</b>	<b>92,676</b>
<b>(b) Liabilities:</b>		
1. due to banks	107,377	76,336
2. due to customers	16,921	17,221
3. securities issued	--	--
4. other accounts	--	--
<b>Total</b>	<b>124,298</b>	<b>93,557</b>

### 11.8. – Third party securitization transactions

As at 31/12/2005 our bank held the following securities coming from third party securitization transactions in its portfolio for a total value of 2,500 thousand Euro.

(Amounts in thousands of Euro)

	Security	Description	Nominal value	Book value	Rating (Standard & Poors)
Senior	IT0003262547	CREDICO 10.12.09 TV	2,500	2,500	AAA
<b>TOTAL</b>			<b>2,500</b>	<b>2,500</b>	

## Section 12 – Operations and brokerage on behalf of third parties

### 12.1. – Trading of securities

Transactions carried out on securities for third parties are itemized as follows:

(Table B.12.1).

(Amounts in thousands of Euro)

<b>a) purchases</b>	
- regulated	1,999
- unregulated	--
<b>b) sales</b>	
- regulated	3,121
- unregulated	--

## 12.2. – Asset administrations

Below is an itemization of the securities regarding asset administration activity the bank has directly carried out:

(Table B.12.2.)

(Amounts in thousands of Euro)

1. Securities issued by us	--
2. Other securities	335,429

## 12.3 – Securities custody and administration

The securities in custody and administered are itemized below (indicated at their nominal value):

(Table B.12.3.)

(Amounts in thousands of Euro)

a. Third party securities in custody (asset administrations not included)	
1. securities issued by us	1,343,895
2. other securities	324,335
b. Third party securities held in custody by others	1,597,191
c. Owned securities held in custody by others	419,463

## 12.4. – Collection of loans for third parties: debit and credit adjustments

(Table B.12.4.)

(Amounts in thousands of Euro)

<b>a) "Debit" adjustments</b>	
1. current accounts	88,649
2. main portfolio	262,138
3. cash	21,192
4. other accounts	466
<b>b) "Credit" adjustments</b>	
1. current accounts	154,688
2. transferor of bills and documents	246,035
3. other accounts	749

## 12.5 – Other transactions

As previously stated in part B, section 6, paragraph 3 of these Notes to the accounts, the bank administers state and provincial funds aimed at the granting of facilitated loans to its customers with the intent to help and create incentives for the agricultural segment.

- **Part A – Accounting Policies**
- **Part B – Information on the Balance Sheet**
- **Part C – Information on the Income Statement**
- **Part D – Further Information**

## **Part C - Information on the Income Statement**

### **Section 1 – Interest**

#### **1.1 Breakdown of item 10 “interest income and similar income”**

Interest income and similar income (item 10) amounting to a total of 161,073 thousand Euro, of which:

(in thousands of Euro)

7,888	interest income from derivative contracts (item 10)
-1,391	interest expense from derivative contracts (item 20)
6,497	positive differential (Table C.1.1. letter e)

break down as follows:

(Table C.1.1.)

(in thousands of Euro)

	<b>31/12/05</b>		<b>31/12/04</b>	
(a) on amounts due from banks of which:		1,883		1,007
- on amounts due from central banks	542		497	
b) on amounts due from customers of which:		138,777		125,228
- on loans using third party funds in administration				-
(c) on debt securities		13,816		10,888
(d) other interest income		100		119
(e) positive balance of differentials on hedging transactions		6,497		7,461
<b>Total</b>		<b>161,073</b>		<b>144,703</b>

Interest income and similar income accrued on assets in currency correspond to 2,840 thousand Euro and have been generated mainly by interest on loans to customers and banks (C.1.3.).

Interest on amounts due from customers also include interest on non-performing loans corresponding to 3,622 thousand Euro.

## 1.2 Breakdown of item 20 “interest expense and similar charges”

Interest expense and similar charges (item 20) amount to a total of 58,541 thousand Euro, of which 1,391 thousand Euro regards derivative hedging contracts shown in Table C.1.1. letter e) and are broken down as follows:

(Table C.1.2.)

(in thousands of Euro)

	31/12/05		31/12/04	
(a) on amounts due to banks		10,225		5,832
(b) on amounts due to customers		11,085		9,393
(c) securities issued of which:		37,231		34,928
- on certificates of deposit	122		138	-
(d) on third party funds in administration		-		-
(e) on subordinate liabilities		-		-
(f) negative balance of differential on hedging transactions		-		-
<b>Total</b>		<b>58,541</b>		<b>50,153</b>

Interest expense and charges accrued on liabilities in currency correspond to 1,666 thousand Euro and are mainly attributable to interest on bank deposits (C.1.4.).

Interest income and similar income accrued on relations with group companies amount to 392 thousand Euro, while no interest expense or similar charges have accrued on relations with the same.

Dividends and other revenues (item 30)

These amount to 2,528 thousand Euro. Of particular note are dividends received on shares in Optima S.r.l, Bolzano (301 thousand Euro), C.I.S. S.p.A., Villafranca di Verona (91 thousand Euro), Mediocredito Trentino Alto Adige (68 thousand Euro) and Istituto Centrale delle Banche Popolari Italiane (57 thousand Euro).

Furthermore, the bank has not received dividends on equity investments in group companies.

Note that dividends amounting to 1,996 thousand Euro were received on other equity securities – “total return” mutual funds.



## Section 2 – Commissions

### 2.1 Breakdown of item 40 “commission income”

Commission income amounting to 36,609 thousand Euro, can be broken down as follows:

(Table C.2.1.)

(in thousands of Euro)

	31/12/05		31/12/04	
(a) guarantees given		1,881		1,871
(b) credit derivatives		-		-
(c) management, brokerage and consulting services:				
1. trading of financial instruments		141		127
2. currency trading		481		567
3. assets under management		4,803		3,708
3.1 individual	4,803		3,708	
3.2 collective	-		-	
4. custody and administration of securities		310		333
5. depositary bank		-		-
6. placement of securities		4,418		3,698
7. order collection		1,388		1,209
8. consulting activities		4,407		3,923
9. distribution of third party services:				
9.1 assets under management				
9.1.1 individual	1,359		1,283	
9.1.2 collective	-		-	
9.2 insurance products	1,364		1,220	
9.3 other products	1,684		1,420	
d) payment and collection services		4,037		3,927
e) servicing for securitisation transactions		-		-
f) tax collection services		-		-
g) other services		14,743		14,140
1. recovery of current account expenses	4,868		5,455	
2. reimbursement of expenses on other bank services	74		27	
<b>Total</b>		<b>36,609</b>		<b>33,503</b>

### 2.2 – Breakdown of item 40 “commission income”

#### Distribution channels for products and services

(Table C.2.2.)

(in thousands of Euro)

	31/12/05	31/12/04
a) at own branches:		
1. assets under management	4,803	3,624
2. placement of securities	4,418	3,698
3. third party products and services	4,407	3,923
<b>Total</b>	<b>13,628</b>	<b>11,245</b>
b) external supply		
1. assets under management	-	84
2. placement of securities	-	-

3. third party products and services	-	-
<b>Total</b>	-	<b>84</b>
<b>Grand total</b>	<b>13,628</b>	<b>11,329</b>

### 2.3 Breakdown of item 50 “commission expense”

Commission expense amounting to 4,925 thousand Euro, can be broken down as follows:

(Table C.2.3.)

(in thousands of Euro)

	31/12/05		31/12/04	
(a) guarantees received		19		6
(b) loan derivatives		-		-
(c) management, brokerage services:				
1. trading of financial instruments		510		342
2. currency trading		248		192
3. assets under management		-		-
3.1 own portfolio		-		-
3.2 third party portfolios		-		-
4. custody and administration of securities		179		177
5. placement of securities		58		48
6. provision of securities, products and services at other branches		3		11
d) payment and collection services		657		622
e) other services		3,251		3,077
- comm. and duty on security brokerage	17		5	
- comm. and duty on data transmission, Cashpoint cards, POS, EC cheques	1,823		1,652	
- comm. and duty on data transmission interbank network	555		564	
comm. and duty on other services	856		856	
<b>Total</b>		<b>4,925</b>		<b>4,475</b>

### Section 3 – Profit and loss from financial transactions

This item closes with a profit of 4,237 thousand Euro (4,294 thousand Euro – 57 thousand Euro) compared to a profit of 5,801 thousand Euro (5,621 thousand Euro + 180 thousand Euro) recorded in the previous year as shown in the table below:

(in thousands of Euro)

	31/12/05		31/12/04	
Profit (loss) from financial transactions				
- losses (write-downs)		-774		-113
- write-backs (revaluations)		50		26
- profit (loss) from trading of securities		2,738		3,559
- other loss (profit) from transactions of securities		22		136
- profit (loss) on currency trading		2,280		2,149
- other loss (profit) on trading transactions		-79		44
<b>Total</b>		<b>4,237</b>		<b>5,801</b>

### 3.1 Breakdown of item 60 “profit/loss from financial transactions”

(Table C.3.1.)

(in thousands of Euro)

	Transactions on securities		Currency transactions		Other transactions		Total	
	i.b. i.b. = on balance sheet f.b. = off-balance sheet	f.b.	i.b.	f.b.	i.b.	f.b.	i.b.	f.b.
A.1. Revaluations	50	-	-	-	-	-	50	-
A.2. Write-downs	-774	-	-	-	-	-	-774	-
B. Other profit/loss	2,738	22	2,280	-79	-	-	5,018	-57
<b>TOTAL</b>	<b>2,014</b>	<b>22</b>	<b>2,280</b>	<b>-79</b>	<b>-</b>	<b>-</b>	<b>4,294</b>	<b>-57</b>

As regards profit from transactions on securities of 2,760 thousand Euro (2,378 thousand Euro + 22 thousand Euro lett. B), note that the same were generated by transactions on:

(in thousands of Euro)

1. Government bonds	108
2. Other debt securities	2,644
3. Equity securities	-14
4. Derivative contracts on securities	22
<b>Total</b>	<b>2,760</b>

### Section 4 – Administrative costs (Item 80)

Administrative costs amounting to a total of 91,029 thousand Euro include personnel costs totalling 52,236 thousand Euro, recording an increase of 5.7%.

The breakdown of said cost has already been provided in the income statement.

### 4.1 Average number of employees per category

The table below shows employees at year-end divided by category:

(Table C.4.1.)

	31/12/05	31/12/04	Average 2005	Average 2004
a) Senior managers	29	29	29	28.5
b) Line managers 3rd and 4th level	98	95	96.5	88
Line Managers 1st and 2nd level	136	123	129.5	117.5
c) remaining employees	627	640	633.5	640
<b>Total</b>	<b>890</b>	<b>887</b>	<b>888.5</b>	<b>874.0</b>

The item "other administrative costs" breaks down as follows:

(in thousands of Euro)

	31/12/2006	31/12/2005
Telephone, postal, data transmission and telex	2,110	2,048
Property, furniture and plant maintenance	2,514	2,594
Property rental	2,431	2,300
Security services	427	434
Transport	529	498
Fees for professional services	1,909	1,068
Office supplies	907	814
Electricity, heating and condominium fees	1,058	925
Advertising and entertainment	2,576	2,423
Legal and judicial fees incurred for credit collection	878	702
Insurance premiums	942	919
Investigation and commercial information	533	438
Indirect taxes	225	306
Deductible VAT	-	-
Stamp duty and tax on stock exchange contracts	6,019	4,535
Office cleaning	1,149	1,102
Taxes and duties	1,464	1,044
Donations	187	195
Fees to directors	519	502
Fees to statutory auditors	173	161
Vehicle circulation and travel/accommodation reimbursements	723	636
Equipment and software leasing charges	1,187	1,875
Reimbursement of treasury consortium costs	20	20
Membership fees	190	193
Loss on amounts due from Deposit Protection Fund	-	-
SEC management costs	9,961	7,489
Other costs	162	171
<b>Total</b>	<b>38.793</b>	<b>33.392</b>

Other administrative costs, totalling 38,793 thousand Euro recorded an increase in 2005 of 16.2% compared to the previous year.

## Section 5 – Adjustments, write-backs and provisions

### Adjustments to intangible assets and property, plant and equipment (item 90)

The depreciation and amortisation accrued during the year of 9,205 thousand Euro are indicated separately in part B, Section 4, in the specific tables provided to show movements of property, plant and equipment and intangible assets.

### Provisions for risks and charges (item 100)

This item amounts to 755 thousand Euro and comprises 16 thousand Euro regarding disputes with customers that have not yet been settled and under negotiation as regards the branch in Domegge, 126 thousand Euro relative to the “Bonus Banking” scheme, 263 thousand Euro related to a prudential provision relative to claims made by customers and 350 thousand Euro for revocatory actions underway with customers.

### 5.1 Breakdown of item 120 “adjustments to loans and provisions for guarantees and commitments”

This item amounts to 11,694 thousand Euro and refers only to amounts due from customers, broken down as follows:

(Table C.5.1.)

(in thousands of Euro)

	31/12/05		31/12/04	
<b>(a) Adjustments to loans</b>		11,686		13,430
- to customers	11,686		13,430	
- other loans	-		-	
of which:				
- lump-sum adjustments due to country risk	-		-	
- other lump-sum adjustments	-		-	
<b>(b) Provisions for guarantees and commitments</b>		8		-
of which:				
- lump-sum provisions due to country risk	-		-	
- other lump-sum provisions	-		-	
<b>Total</b>		<b>11,694</b>		<b>13,430</b>

As regards the item in the income statement “adjustments to customer loans” of 11,686 thousand Euro, note that 277 thousand Euro regards certain and final losses that in assessments of previous years were not covered by the provision for possible loan losses; 10,292 thousand Euro represent fully tax-deductible write-downs and 1,117 thousand Euro represent write-downs offset by write-backs from valuations of the same amount (item 130) and therefore neutral for tax purposes.

Note that the allocation of 8 thousand Euro to the provision for guarantees and commitments is not tax deductible.

### Write-backs to loans and provisions for guarantees and commitments (item 130)

Write-backs totalling 4,257 thousand Euro are represented by:

(in thousands of Euro)

- recovery in 2005 of non-performing loans, amortised in previous years	799
- write-backs from valuation of loan-capital offset by write-downs	1,117
- write-backs from valuation of loan-interest	23
- write-backs from collection of loan-capital	2,303
- write-backs from collection of loan-interest	15
<b>Total</b>	<b>4,257</b>

### Allocations to provision for possible loan losses (item 140)

Allocations to the provision for possible loan losses totalling 12,537 thousand Euro aim to cover only possible risks. Arrears interest of 953 thousand Euro accrued in the year and retained uncollectible has already been deducted. 6,403 thousand Euro of the former amount has been allocated to the provision for possible loan losses on non-deductible loan principals.

#### Adjustments to financial assets (item 150)

No adjustments have been made to financial assets.

#### Write-backs of financial assets (item 160)

Negative.

#### Changes in the reserve for general banking risks (item 210)

A net change in the reserve for general banking risks of 2,400 thousand Euro was recorded in the year as follows:

(in thousands of Euro)

Allocations	2,400
Use	-
<b>Total</b>	<b>2,400</b>

### Section 6 – Other income statement items

#### 6.1 Breakdown of item 70 “other operating income”

Other income amounts to 14,190 thousand Euro, with an increase of 2,647 thousand Euro. The revaluation of the staff severance indemnity paid in advance to the tax authorities has also been included in “other operating income”.

(Table C.6.1.)

(in thousands of Euro)

	31/12/05	31/12/04
Rent income from property and car-parks	450	513
Income from finance leases	-	-
Income from redemption of finance lease contracts	-	-
Recovery of management costs for deposits and overdrawn current accounts	7,131	5,883
Charges to third parties for various recoveries	6,591	5,126
Revaluation of Staff Severance Indemnity tax credit	18	21
<b>Total</b>	<b>14,190</b>	<b>11,543</b>

#### 6.2 Breakdown of item 110 “other operating costs”

Costs of 2,324 thousand Euro resulted from finance leasing contracts with the subsidiary Berger S.p.A.

### 6.3 Breakdown of item 180 “extraordinary income”

This item amounting to 4,681 Euro includes:

(Table C.6.3.)

(in thousands of Euro)

	31/12/05	31/12/04
<b>Extraordinary income:</b>		
- various reimbursements from previous years	2,019	566
- deferred tax from previous years	-	-
- cancellation of provision for guarantees given and not executed	130	131
- collections during the year of interest on non-performing loans	2,527	2,968
- non-existent liabilities	-	-
<b>Profit from disposal of:</b>		
- financial assets	-	-
- other tangible assets	5	19
<b>Total</b>	<b>4,681</b>	<b>3,684</b>

### 6.4 Breakdown of item 190 “extraordinary charges”

This item amounting to 434 Euro includes:

(Table C.6.4.)

(in thousands of Euro)

	31/12/05	31/12/04
<b>Extraordinary charges:</b>	367	3,306
Non-existent assets	-	-
<b>Losses on disposal of:</b>		
- tangible assets	67	43
- financial assets	-	108
<b>Total</b>	<b>434</b>	<b>3,457</b>

Extraordinary charges include 90 thousand Euro for differences resulting from disputes settled with our customers of the Domegge branch, 72 thousand Euro due to other differences in cash and tangible assets, 66 thousand Euro to other previous extraordinary charges and 139 thousand Euro due to reimbursements made to customers for interest adjustments and commission.

## 6.5 Breakdown of item 220 “income taxes for the year”

Income taxes for the year amount to 18,763 thousand Euro, 17,817 thousand of which regard provisions for IRES (corporation tax) and IRAP (regional business tax) and 991 thousand Euro relative to changes in prepaid taxes, from which 45 thousand Euro should be deducted due to changes in deferred tax, as a result of the reversal of deferred/prepaid taxes for 2005, as detailed in section 7 of the notes to the accounts, and the recalculation of those for future years and the activation of those incurred in 2005.

(in thousands of Euro)

	31/12/05	31/12/04
Current:		
IRES	13,206	10,259
IRAP	4,611	3,561
Other direct taxes	-	-
Changes in prepaid taxes	991	-519
Changes in deferred taxes	-45	-35
<b>Total income tax due for the year</b>	<b>18,763</b>	<b>13,266</b>
Surplus from tax reserve	-	-
<b>Total item “income tax”</b>	<b>18,763</b>	<b>13,266</b>

## Section 7 – Further Information on the income statements

### 7.1 – Territorial distribution of income

The territorial distribution of income is not described insofar as the Bank’s scope of operations is limited to the domestic market.



## Part A – Accounting Policies

## Part B – Information on the Balance Sheet

## Part C – Information on the Income Statement

## Part D – Further Information

### Part D – Further Information

#### Section 1 – Directors and statutory auditors

##### 1.1 - Fees

The remuneration of management bodies (D.1.1.) includes fees paid to:

(Table D.1.1.)

(in thousands of Euro)

	31/12/05	31/12/04
a) Directors	519	502
b) Statutory auditors	173	161
<b>Total</b>	<b>692</b>	<b>663</b>

##### 1.2 Loans and guarantees given

As at 31 December 2005, the Banks exposure as regards directors and statutory auditors (D.1.1.) amounted to:

(Table D.1.2.)

(in thousands of Euro)

For loans disbursed:	
a) directors	4,844
b) statutory auditors	1,879
<b>Total</b>	<b>6,723</b>
For guarantees given:	
a) directors	194
b) statutory auditors	32
<b>Total</b>	<b>226</b>

## **Section 2 – Parent company**

### **Exclusion from the obligation of preparing consolidated financial statements**

Due to the fact that it surpasses the thresholds dictated by supervisory instructions, the bank prepares consolidated indications, which include financial statements of Berger S.p.A., a subsidiary company belonging to the banking group.

Consolidated financial statements are not drawn up under the provisions of art. 29, paragraph 1) letter a) of legislative decree no. 87 of 27/1/1992 insofar as the inclusion is insignificant for the purposes indicated in art. 2, paragraph 3 of the same decree.

## **Attachments**

These attachments, listed in the introduction of the “Notes to the accounts – Form and content of the financial statements”, contain further information in addition to that already contained in the Notes, of which they form an integral part.

- **Cash flow statement**
- **Statement of changes in shareholders' equity**
- **Disclosure of trading in treasury shares**
- **Statement of revaluation of property assets**

## Cash flow statement for year ended 31/12/2005

(Amounts in thousands of Euro)

<b>A.</b>	<b>Funds used :</b> <b>Value adjustments and use of funds generated from operations:</b> 1 – Write-backs on loans (including collection of non-performing loans) 2 - Allocation of profit: dividends to shareholders 3 - Use of staff severance indemnity 4 – Use of provision for taxation 5 - Use of and other variations in provisions for credit risks 6 - Use of fund for general banking risks 7 – Use of fund for risks and charges 8 – Dissolution fund for guarantees given, not examined	10,701 8,183 989 13,841 4,304 -- 2,475 130
<b>B.</b>	<b>Increase in funds used:</b> 1 - Cash and balances 2 – Securities 3 – Banks 4 – Due from customers 5 – Equity investments 6 – Intangible assets 7 – Property, plant and equipment 8 – Accrued income and prepayments	1,079 27,865 43,533 385,572 1,757 1,752 10,502 3,658
<b>C.</b>	<b>Decrease in funds used:</b> 1 – Other assets  <b>Total funds used</b>	-14,688  <b>501,653</b>
<b>D.</b>	<b>Funds generated by operations:</b> 1 – Profits for the year 2 – Write-backs on property, plant and equipment and intangible assets 3 – Write-backs on receivables 4 – Provision for staff severance indemnity 5 - Allocation to the provision for taxation 6 - Allocation to the provision for credit risks 7 - Allocation to the reserve for general banking risks 8 - Allocation to the provision for risks and charges 9 - Allocation to the fund for the write-down of guarantees given	14,969 9,205 11,409 2,588 17,817 13,490 2,400 755 8
<b>E.</b>	<b>Increase in funds obtained:</b> 1 – Due to banks 2 – Due to customers 3 – Debts represented by securities 4 – Third party funds in administration 5 – Other liabilities 6 – Accrued liabilities and deferred income	184,975 37,102 171,736 8,242 2,393 462
<b>F.</b>	<b>Decrease in funds obtained:</b>	
<b>G.</b>	<b>Change in share capital during the year (*):</b> 1 – Share capital 2 – Share premium reserve 3 - "Stock granting" reserve fund	2,424 15,346 --

	4 – Revaluation reserve	6,332
	<b>Total funds generated and obtained</b>	<b>501,653</b>
(*) Statement of changes in shareholders' equity		

<b>Statement of changes in shareholders' equity</b>									
(Amounts in thousands of Euro)									
<b>A) CAPITAL AND RESERVES</b>	Share Capital	Legal Reserve	Statutory Reserve from earnings	Share Premium reserve	Fund for Acquisition of own equity shares	Other reserves		Revaluation reserve	<b>TOTAL</b>
						Extraordinary Reserve L. no. 218 of 30/07/90	Reserve to fund future capital increases by "stock granting" employees		
- Balances as at 31/12/04	60,613	68,100	30,850	81,825	4,183	10,278	117	22,057	278,023
- Allocation of profit		4,600	1,695						6,295
- New subscriptions	2,424			15,346					17,770
- Revaluation L.266/2005								6,332	6,332
- Changes in the year	2,424	4,600	1,695	15,346				6,332	30,397
<b>Totals as at 31/12/2005</b>	<b>63,037</b>	<b>72,700</b>	<b>32,545</b>	<b>97,171</b>	<b>4,183</b>	<b>10,278</b>	<b>117</b>	<b>28,389</b>	<b>308,420</b>

(Amounts in thousands of Euro)

<b>B) PROVISIONS</b>	Bad debt provision		Reserve for general banking risks	<b>TOTAL</b>
	for capital	for interest		
- Balances as at 31/12/04	51,838	10,331	22,500	84,669
- Utilisation for losses on loans which became unrecoverable during the year	-4,170	-134		-4,304
-Utilisation for debt recovery of interest on non-performing loans during the year		-2,527		-2,527
- Write-down/provision of capital loan (of which tax deductible in 2005: Euro 12,804,419)	19,207			19,207
-Write-down of capital loan compensated by write-backs from valuation of loans – capital (tax neutral)	1,117			1,117
- Write-backs from valuation of loans capital (tax neutral)	-1,117			-1,117
- Write-backs from collection of loans capital	-2,303			-2,303
- Provision for credit risks on account of interest (tax deductible in				

2005)				
		3,622		3,622
Provision for credit risks on account of interest for interest unrecoverable in 2005 (tax deductible in 2005)				
		953		953
Reinstatement of value through loan valuation - interest		-23		-23
Reinstatement of value through loan collection - interest		-15		-15
Provision to the fund for general banking risks			2,400	2,400
Changes in the year	12,734	1,876	2,400	17,010
Totals as at 31/12/2005	64,572	12,207	24,900	101,679
Deduction for valuation of non-performing loans at their presumed realisable value	-21,641	-3,896		-25,537
- Deduction for valuation of problem loans at their presumed realisable value	-7,960			-7,960
- Deduction for valuation of restructured loans at their presumed realisable value	-500			-500
<b>Totals as at 31/12/2005</b>	<b>34,471</b>	<b>8,311</b>	<b>24,900</b>	<b>67,682</b>
<b>TOTAL SHAREHOLDERS' EQUITY AS AT 31/12/2005 (A + B)</b>				<b>376,102</b>
- Profit for the year allocated to reserves, in accordance with the proposal for appropriation				<b>6,143</b>
<b>TOTAL</b>				<b>382,245</b>

**Disclosure of trading in treasury shares in the 2005 financial year (Presidential Decree 10.02.1986, no.30 article18)**

(Amounts in thousands of Euro)

	Number of shares traded	Nominal value	Corresponding share of capital	Amounts due paid or collected	Reasons
-Opening balance as at 01/01/2005	--	--	--	--	Ordinary trading through transfer between shareholders
- Acquisitions in 2005	--	--	--	--	
- Sales in 2005	--	--	--	--	
- Closing balance as at 31/12/2005	--	--	--	--	

**Statement of property assets still owned which have been subject to previous monetary revaluations in accordance with specific laws (Law no. 72/1983, art.10)**

(Amounts in thousands of Euro)	Law no.74 11/02/1952 Amount	Law no.576 02/12/1975 Amount	Law no.72 19/03/1983 Amount	Law no. 413 30/12/1991 Amount	Law no. 448 28/12/2001 Amount	Law no. 350 24/12/20 03 Amount	Law no.266 23/12/2005 Amount
<b>Revalued assets:</b>							
- total amount	3	-	-	-	-	-	-
- property for branch use in Bressanone, Portici Maggiori 2	-	84	790	431	-	-	-
- property for branch use in Vipiteno	-	50	-	51	-	-	-
- property for branch use at Chienes	-	32	160	84	-	-	-
- property for branch use in Campo Tures	-	-	70	69	-	-	-
- property in Varna	-	14	-	82	-	-	-
- property for central administrative use in the Bressanone Industrial Zone	-	-	426	473	-	-	-
- property for branch use in Rio di Pusteria	-	-	-	144	-	-	-
- property for branch use in Racines	-	-	-	58	-	-	-
- property for branch use in Brunico – San Giorgio	-	-	-	39	-	-	-
- property for branch use in Dobbiaco	-	-	-	92	-	-	-
- property for branch use in Chiusa	-	-	-	89	-	-	-
- property for branch use in Brunico	-	-	-	276	-	-	-
- property for branch use in Bolzano, Piazza Mazzini	-	-	-	34	-	-	-
- property for branch use in Vandoies di Sotto	-	-	-	30	-	-	-
- property for branch use in Bolzano, Via L. da Vinci 2	-	186	997	551	-	-	-
- property for branch use in Bolzano, Gries	-	-	120	57	-	-	-
- property for branch use in Via Roma, Bolzano	-	-	-	135	-	-	-
- property for branch use in Via Resia, Bolzano	-	-	-	4	-	-	-



- property for branch use in Zona Europa, Bolzano	-	-	-	226	-	-	-
- property for branch use in Egna	-	-	-	30	-	-	-
- property in Merano, P.zza del Grano, 3	-	46	987	-	-	-	-
-property in Merano, car park, P.zza del Grano	-	-	-	-	-	-	-
- property for branch use in Merano, Via Matteotti	-	-	179	292	-	-	-
- property for branch use in Merano, Via Monte Tessa	-	-	-	71	-	-	-
- property for branch use in Naturno	-	-	-	49	-	-	-
- property for branch use in San Leonardo in Passiria	-	-	-	103	-	-	-
- plant and electronic machinery	-	-	111	-	-	-	-
- various machines and equipment including printing equipment	-	-	37	-	-	-	-
- office machines and furniture including armoured syst., security boxes	-	-	155	-	-	-	-
- plant and electronic machinery	-	-	-	-	489	878	941
- machinery, technical equipment and other	-	-	-	-	2,841	2,183	2,039
- furniture, fixtures and secured counters	-	-	-	-	6,422	4,134	4,215
Revaluation value of property assets still owned	3	412	4,032	3,470	9,752	7,195	7,195
Assets disposed, shown only by category							
- property disposed in 1976	-	64	-	-	-	-	-
- property disposed in 1993	-	-	113	72	-	-	-
- property disposed by former Banca Popolare di Merano	-	56	-	26	-	-	-
- property disposed in 1996	-	-	-	21	-	-	-
- property disposed in 1997	-	4	62	1	-	-	-
- property disposed in 1998	-	8	149	1	-	-	-
- property disposed in 1999	-	-	33	77	-	-	-
- property disposed in 2002	-	-	-	26	-	-	-
- property disposed in 2003	-	-	-	98	-	-	-
- car park disposed in 2005	-	44	-	12	-	-	-
- various machinery and equipment:							
- disposed in FY 1984	-	-	1	-	-	-	-
- disposed in FY 1987	-	-	10	-	-	-	-
- disposed in FY 1990	-	-	3	-	-	-	-
- disposed in FY 1991	-	-	2	-	-	-	-
- disposed in FY 1999	-	-	7	-	-	-	-
- disposed in FY 2003	-	-	-	-	1	-	-
- disposed in FY 2004	-	-	-	-	2	-	-
- plant and electronic machinery:							
- disposed in FY 1990	-	-	38	-	-	-	-
- disposed in FY 2005	-	-	-	-	5	16	-

- office machines and furniture including armoured syst., security boxes							
- disposed in FY 1990	-	-	32	-	-	-	-
- disposed in FY 1992	-	-	3	-	-	-	-
- disposed in FY 1994	-	-	2	-	-	-	-
- disposed in FY 1996	-	-	4	-	-	-	-
- disposed in FY 1999	-	-	1	-	-	-	-
- disposed in FY 2004	-	-	-	-	13	1	-
- disposed in FY 2005	-	-	-	-	18	2	-
<b>Total revaluations</b>	<b>3</b>	<b>588</b>	<b>4,492</b>	<b>3,804</b>	<b>9,791</b>	<b>7,214</b>	<b>7,195</b>
- to be deducted: the relative taxes due	-	-	-	-604	-1,861	-1,370	-863
<b>Total revaluation provisions</b>	<b>3</b>	<b>588</b>	<b>4,492</b>	<b>3,200</b>	<b>7,930</b>	<b>5,844</b>	<b>6,332</b>

## **Financial Statements of subsidiary companies**

### **BERGER SPA**

**(Part of the Banca Popolare dell'Alto Adige S.c.a.r.l. Bolzano Banking Group)  
(S.c.a.r.l. – Cooperative with limited liability)**

**ASSETS**

**LIABILITIES**

**GUARANTEES AND COMMITMENTS**

**INCOME STATEMENT**

### **OPTIMA SRL (Limited liability company)**

**Broker Banca Popolare dell'Alto Adige S.r.l. Bolzano**

**ASSETS**

**LIABILITIES**

**INCOME STATEMENT**

### **IMMOBILARE A&A SRL (Limited liability company)**

**Bolzano**

**ASSETS**

**LIABILITIES**

**GUARANTEES AND COMMITMENTS**

**INCOME STATEMENT**

**BERGER S.p.A (Joint-stock company)**  
**Registered office in Via del Macello, 55 – Bolzano**  
**Share capital Euro 600,000 fully paid up**  
**Registered with the court of Bolzano at no. 2538**

<b>Financial statements as at 31/12/2005</b>				
<b>Balance sheet (in Euro)</b>				
<b>Assets</b>	<b>31/12/2005</b>		<b>31/12/2004</b>	
10. Cash and balances		<b>0</b>		<b>0</b>
20. Due from banks		<b>0</b>		<b>0</b>
(a) on demand	0		0	
(b) other	0		0	
30. Due from financial institutions		<b>0</b>		<b>0</b>
(a) on demand	0		0	
(b) other	0		0	
40. Due from customers		<b>0</b>		<b>0</b>
50. Bonds and other debt securities		<b>0</b>		<b>0</b>
(a) public entities	0		0	
(b) banks	0		0	
(c) financial institutions	0		0	
of which:				
- treasury shares	0		0	
(d) other issuers	0		0	
60. Shares, quotas and other equity securities		<b>0</b>		<b>0</b>
70. Equity investments		<b>0</b>		<b>0</b>
80. Equity investments in group companies		<b>0</b>		<b>0</b>
90. Intangible assets		<b>0</b>		<b>0</b>
100. Property, plant and equipment		<b>13,021,191</b>		<b>13,384,171</b>
of which:				
- leased	12,460,191		9,450,717	
110. Subscribed capital unpaid		<b>0</b>		<b>0</b>
120. Treasury shares and quotas		<b>0</b>		<b>0</b>
130. Other assets		<b>311,400</b>		<b>28,633</b>
140. Accrued income and prepaid expenses		<b>0</b>		<b>0</b>
(a) Accrued income	0		0	
(b) Prepaid expenses	0		0	
<b>Total assets</b>		<b>13,332,591</b>		<b>13,412,804</b>

**BERGER S.p.A (Joint-stock company)**  
**Registered office in Via del Macello, 55 – Bolzano**  
**Share capital Euro 600,000 fully paid up**  
**Registered with the court of Bolzano at no. 2538**

<b>Financial statements as at 31/12/2005</b>				
<b>Balance sheet (in Euro)</b>				
<b>Liabilities</b>	<b>31/12/2005</b>		<b>31/12/2004</b>	
10. Due to banks		<b>8,306,644</b>		<b>8,191,356</b>
(a) on demand	4,681,741		3,623,738	
(b) on maturity or with notice	3,624,903		4,567,618	
20. Due to financial institutions		<b>0</b>		<b>0</b>
(a) on demand	0		0	
(b) on maturity or with notice	0		0	
30. Due to customers:		<b>0</b>		<b>0</b>
(a) on demand	0		0	
(b) on maturity or with notice	0		0	
40. Debts represented by securities		<b>0</b>		<b>0</b>
(a) obligations	0		0	
(b) other securities	0		0	
50. Other liabilities		<b>36,707</b>		<b>224,502</b>
60. Accrued liabilities and deferred income	0	<b>0</b>		<b>0</b>
(a) accrued liabilities	0		0	
(b) deferred income	0		0	
70. Staff severance indemnity		<b>0</b>		<b>0</b>
80. Provision for risks and charges		<b>0</b>		<b>0</b>
(a) pensions and similar commitments	0		0	
(b) provision for taxation	0		0	
(c) other provisions	0		0	
90. Provision for possible loan losses		<b>0</b>		<b>0</b>
100 Provision for general financial risks		<b>0</b>		<b>0</b>
110. Subordinated liabilities		<b>0</b>		<b>0</b>
120. Share capital		<b>600,000</b>		<b>600,000</b>
130. Share premium reserve		<b>0</b>		<b>0</b>
140. Reserves		<b>269,235</b>		<b>234,814</b>

(a) legal reserve	59,298		56,483	
(b) reserve for treasury shares	0		0	
(c) statutory reserves	0		0	
(d) other reserves	209,937		178,331	
150. Revaluation reserves		<b>4,127,713</b>		<b>4,127,713</b>
160. Retained earnings (losses)		<b>0</b>		<b>-21,864</b>
170. Profit (loss) for the year		<b>-7,708</b>		<b>56,283</b>
<b>Total liabilities</b>		<b>13,332,591</b>		<b>13,412,804</b>

**BERGER S.p.A (Joint-stock company)**  
**Registered office in Via del Macello, 55 – Bolzano**  
**Share capital Euro 600,000 fully paid up**  
**Registered with the court of Bolzano at no. 2538**

<b>Financial statements as at 31/12/2005</b>		
<b>Guarantees and commitments (in Euro)</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>10. Guarantees given</b>	<b>0</b>	<b>0</b>
<b>20. Commitments</b>	<b>0</b>	<b>0</b>

**BERGER S.p.A (Joint-stock company)**  
**Registered office in Via del Macello, 55 – Bolzano**  
**Share capital Euro 600,000 fully paid up**  
**Registered with the court of Bolzano at no. 2538**

<b>Income statement (in Euro)</b>	<b>31/12/2005</b>		<b>31/12/2004</b>	
<b>- Costs</b>				
10. Interest expense and similar charges		<b>392,326</b>		<b>418,810</b>
20. Commission expense		<b>0</b>		<b>0</b>
30. Losses from financial transactions		<b>0</b>		<b>0</b>
40. Administrative costs		<b>54,853</b>		<b>42,430</b>
(a) personnel costs	0		0	
of which:				
- wages and salaries	0		0	
- social security contributions	0		0	
- staff severance indemnity	0		0	
- pension and similar commitments	0		0	
(b) other administrative costs	54,853		42,430	
50. Adjustments to property, plant and equipment and intangible assets of which:		<b>2,024,631</b>		<b>1,837,564</b>
- lease concessions	2,024,631		1,802,149	
60. Other operating costs		<b>0</b>		<b>0</b>
70. Provisions for risks and charges		<b>0</b>		<b>0</b>
80. Provision for possible loan losses		<b>0</b>		<b>0</b>
90. Adjustments to receivables and provisions for guarantees and commitments		<b>0</b>		<b>0</b>
100. Adjustments to financial assets		<b>0</b>		<b>0</b>
110. Extraordinary charges		<b>0</b>		<b>0</b>
120. Increases in the fund for general financial risks		<b>0</b>		<b>0</b>
130. Income taxes for the year		<b>0</b>		<b>6,760</b>



140. Profit for the year		0	56,283
<b>Total costs</b>		<b>2,471,810</b>	<b>2,361,847</b>

<b>Income statement (in Euro)</b>	<b>31/12/2005</b>		<b>31/12/2004</b>	
<b>- Income</b>				
10. Interest income and similar income		6,654		0
of which:				
- on debt securities	0		0	
20. Dividends and other revenues:		0		0
(a) shares, quotas and other equity securities	0		0	
(b) equity investments	0		0	
(c) equity investments in group companies	0		0	
30. Commission income		0		0
40. Profits from financial transactions		0		0
50. Adjustments to receivables and provisions for guarantees and commitments		0		0
60. Adjustments to financial assets		0		0
70 Other operating income of which:		2,457,448		2,361,847
- Leasing instalments	2,322,521		2,107,380	
80. Extraordinary income		0		0
90. Decreases in the fund for general financial risks		0		0
100. Loss for the year		7,708		0
<b>Total Income</b>		<b>2,471,810</b>		<b>2,361,847</b>

**OPTIMA – BROKER BANCA POPOLARE DELL'ALTO ADIGE S.R.L. (Limited liability company)**  
Registered office in Via Galvani, 40 c – Bolzano  
Share capital €2,000,000 fully paid up  
Registered with the court of Bolzano at no. 20821

<b>Financial statements as at 31/12/2005</b>		
<b>Balance sheet (in Euro)</b>		
<b>Assets</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>A. SUBSCRIBED CAPITAL, UNPAID</b>	<b>0</b>	<b>0</b>
<b>B. FIXED ASSETS</b>	<b>275,097</b>	<b>334,346</b>
I. Intangible assets		
- Concessions, licences, trademarks and similar rights	6,205	21,318
- Goodwill	129,494	140,667
- Work in progress and payments on account	0	0
- Other	26,462	32,538
	162,161	194,523
II. Property, plant and equipment		
- Fixtures and fittings, tools and other equipment	112,936	139,823
III. Long-term investments	0	0
<b>C. CURRENT ASSETS</b>	<b>4,045,587</b>	<b>2,729,396</b>
I. Stock	0	0
II. Receivables		
- due from customers	386	429
- due from parent companies	1,884,956	640,380
- tax receivables	927	9,855
- tax assets – deferred	3,684	0
- other amounts due	455,491	378,511
	2,345,444	1,029,175
III. Current financial assets		
- Other securities	1,700,000	1,700,000
IV. Cash and cash equivalents		
- Balances with banks	0	0
- Cash at hand	143	221
<b>D. ACCRUALS AND DEFERRALS</b>	<b>13,266</b>	<b>10,725</b>
<b>TOTAL ASSETS</b>	<b>4,333,950</b>	<b>3,074,467</b>

OPTIMA – BROKER BANCA POPOLARE DELL'ALTO ADIGE S.R.L. (Limited liability company)  
Registered office in Via Galvani, 40 c – Bolzano  
Share capital €2,000,000 fully paid up  
Registered with the court of Bolzano at no. 20821

<b>Financial statements as at 31/12/2005</b>		
<b>Balance sheet (in Euro)</b>		
<b>Liabilities</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>A. SHAREHOLDERS EQUITY</b>	<b>2,434,951</b>	<b>2,519,189</b>
I. Share capital	2,000,000	2,000,000
II. Share premium reserve	0	0
III. Revaluation reserve	0	0
IV. Legal reserve	15,824	5,864
V. Reserve for treasury shares owned	0	0
VI. Statutory reserves	0	0
VII. Other reserves	202,727	314,151
VIII. Losses carried forward	0	0
IX. Profit (loss) for the year	216,400	199,174
<b>B. PROVISION FOR RISKS AND CHARGES</b>	<b>0</b>	<b>0</b>
<b>C. STAFF SEVERANCE INDEMNITY</b>	<b>60,073</b>	<b>48,618</b>
<b>D. PAYABLES</b>	<b>1,838,567</b>	<b>506,660</b>
- Trade payables	32,900	17,288
- Amounts owed to parent companies	0	0
- Tax payables	86,970	76,190
- Amounts owed to social security institutions	11,123	14,136
- Other payables	1,707,574	399,046
<b>E. ACCRUALS AND DEFERRALS</b>	<b>359</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>4,333,950</b>	<b>3,074,467</b>

**OPTIMA – BROKER BANCA POPOLARE DELL'ALTO ADIGE S.R.L. (Limited liability company)**  
**Registered office in Via Galvani, 40 c – Bolzano**  
**Share capital €2,000,000 fully paid up**  
**Registered with the court of Bolzano at no. 20821**

<b>Income statement (in Euro)</b>		
	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>A. VALUE OF PRODUCTION</b>	<b>1,051,138</b>	<b>977,342</b>
Revenue from sales and services	1,051,018	975,862
Other revenue and income	120	1,480
<b>B. COST OF PRODUCTION</b>	<b>-718,308</b>	<b>-732,800</b>
Raw materials, consumables and goods for resale	-5,700	-8,288
Services	-217,562	-221,446
Use of third party assets	-50,157	-48,111
Personnel:		
- wages and salaries	-260,606	-262,147
- social security costs	-83,131	-80,711
- staff severance indemnity	-16,826	-18,110
	-360,563	-360,968
Amortisation/depreciation and write-downs		
- amortisation of intangible fixed assets	-36,418	-43,250
- depreciation of Property, plant and equipment	-34,119	-37,419
	-70,537	-80,669
Sundry costs	-13,789	-13,418
<b>DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION</b>	<b>332,830</b>	<b>244,542</b>
<b>C. FINANCIAL INCOME AND CHARGES</b>	<b>42,090</b>	<b>42,425</b>
Income from securities	40,574	42,894
Other financial income	2,441	1,773
Interest and other financial charges	-925	-2,242
<b>D. VALUE ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>0</b>	<b>0</b>
<b>E. EXTRAORDINARY INCOME AND CHARGES</b>	<b>0</b>	<b>0</b>
Extraordinary income	0	0
Extraordinary charges	0	0
<b>PROFIT BEFORE TAX</b>	<b>374,920</b>	<b>286,967</b>
INCOME TAXES	-158,520	-87,793
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>216,400</b>	<b>199,174</b>

**IMMOBILIARE A&A S.R.L.** (Limited liability company)  
Registered office in Via del Macello, 55 – Bolzano  
Share capital € 30,000 fully paid up  
Registered at the Companies Registry of Bolzano no. 03340170277

<b>Financial statements as at 31/12/2005</b>		
<b>Balance sheet (in Euro)</b>		
<b>Assets</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>A. SUBSCRIBED CAPITAL UNPAID</b>	<b>0</b>	<b>0</b>
<b>B. FIXED ASSETS</b>	<b>861,495</b>	<b>3,162,678</b>
I. Intangible assets	505	1,011
a) cost	2,528	2,528
b) amortisation fund	-2,023	-1,517
II. Property, plant and equipment	610,990	3,161,667
a) cost	649,305	3,391,208
b) depreciation fund	-38,315	-229,541
III. Long-term investments	250,000	0
<b>C. CURRENT ASSETS</b>	<b>1,568,056</b>	<b>3,192,182</b>
I. Stock	1,488,645	3,169,582
II. Receivables	75,238	22,600
III. Current financial assets	0	0
IV. Cash and cash equivalents	4,173	0
<b>D. ACCRUALS AND DEFERRALS</b>	<b>3,216</b>	<b>5,548</b>
<b>TOTAL ASSETS</b>	<b>2,432,767</b>	<b>6,360,408</b>

**IMMOBILIARE A&A S.R.L.** (Limited liability company)  
Registered office in Via del Macello, 55 – Bolzano  
Share capital € 30,000 fully paid up  
Registered at the Companies Registry of Bolzano no. 03340170277

<b>Financial statements as at 31/12/2005</b>		
<b>Balance sheet (in Euro)</b>		
<b>Liabilities</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>A. SHAREHOLDERS' EQUITY</b>	<b>404,230</b>	<b>163,687</b>
I. Share capital	30,000	10,000
II. Share premium reserve	0	0
III. Revaluation reserve	0	0
IV. Legal reserve	2,000	2,000
V. Reserve for treasury shares owned	0	0
VI. Statutory reserves	0	0
VII. Other reserves	2,503	-1
VIII. Profit (loss) carried forward	151,688	59,552
IX. Profit (loss) for the year	218,039	92,136
<b>B. PROVISION FOR RISKS AND CHARGES</b>	<b>133,312</b>	<b>0</b>
<b>C. STAFF SEVERANCE INDEMNITY</b>	<b>0</b>	<b>0</b>
<b>D. PAYABLES</b>	<b>1,895,225</b>	<b>6,196,721</b>
<b>E. ACCRUALS AND DEFERRALS</b>	<b>0</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>2,432,767</b>	<b>6,360,408</b>

**IMMOBILIARE A&A S.R.L.** (Limited liability company)  
Registered office in Via del Macello, 55 – Bolzano  
Share capital € 30,000 fully paid up  
Registered at the Companies Registry of Bolzano no. 03340170277

<b>Financial statements as at 31/12/2005</b>		
<b>Guarantees and commitments (in Euro)</b>	<b>31/12/2005</b>	<b>31/12/2004</b>
Personal guarantees given/received	1,121,117	1,121,117
<b>TOTAL GUARANTEES AND COMMITMENTS</b>	<b>1,121,117</b>	<b>1,121,117</b>

**IMMOBILIARE A&A S.R.L.** (Limited liability company)  
Registered office in Via del Macello, 55 – Bolzano  
Share capital € 30,000 fully paid up  
Registered at the Companies Registry of Bolzano no. 03340170277

<b>Income statement (in Euro)</b>		
	<b>31/12/2005</b>	<b>31/12/2004</b>
<b>A. VALUE OF PRODUCTION</b>	<b>2,388,653</b>	<b>725,212</b>
Revenue from sales and services	1,828,810	280,000
Other revenue and income	559,843	445,212
<b>B. COST OF PRODUCTION</b>	<b>-2,032,353</b>	<b>-570,183</b>
Raw materials, consumables and goods for resale	-1,111,015	-1,701,032
Services	-155,696	-169,687
Personnel:	-30,924	0
- wages and salaries	-20,436	0
- social security costs	-7,183	0
- staff severance indemnity	-2,087	0
- other costs	-1,218	0
Use of third party assets	0	0
Amortisation/depreciation and write-downs	-19,985	-102,242
- amortisation of intangible assets	-506	-506
- depreciation of property, plant and equipment	-19,479	-101,736
- write-down of receivables included in current assets	0	0
- variations in stocks of raw materials, consumables and goods for resale	-680,137	1,433,000
Sundry costs	-34,596	-30,222
<b>DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION</b>	<b>356,300</b>	<b>155,029</b>
<b>C. FINANCIAL INCOME AND CHARGES</b>	<b>0</b>	<b>0</b>
Income from securities	0	0
Other financial income	0	0
Interest and other financial charges	0	0
<b>D. ADJUSTMENTS TO FINANCIAL ASSETS</b>	<b>0</b>	<b>0</b>
<b>E. EXTRAORDINARY INCOME AND CHARGES</b>	<b>0</b>	<b>1</b>
Extraordinary income	0	1
Extraordinary charges	0	0
<b>PROFIT BEFORE TAX</b>	<b>356,300</b>	<b>155,030</b>
INCOME TAXES	-138,261	-62,894
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>218,039</b>	<b>92,136</b>



BDO

BDO SALA SCELSI FARINA Via Andrea Appiani 12, 20121 Milan  
Società di revisione per azioni (independent auditing company)

**Independent Auditors' Report**  
**according to the terms of art.156 of Leg. Decree 24/2/1998, no. 58**

To the Board of Directors of Banca Popolare dell'Alto Adige S.c.a.r.l.

1. We have audited the financial statements of Banca Popolare dell'Alto Adige S.c.a.r.l. per azioni for the year ended 31 December 2005. Preparation of the financial statements is the responsibility of the Board of Directors of Banca Popolare dell'Alto Adige S.c.a.r.l. per azioni. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards recommended by CONSOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, on the whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the appropriateness and correctness of the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For an opinion on the previous financial statements, whose figures are presented here for comparative purposes, refer to our report issued on 1 April 2005.

3. In our opinion, the financial statements of Banca Popolare dell'Alto Adige S.c.a.r.l. per azioni as at 31 December 2005 have been prepared in accordance with the standards which regulate their preparation: they have been prepared clearly and provide a true and fair view of the balance sheet and financial position of the company.

4. Only for information purposes, we draw your attention to the following:

- Profit for the period was determined after an allocation to the fund for general banking risks totalling 2,400 thousand Euro;
- The bank proceeded with the revaluation of property assets in accordance with law 266/2005, whose financial and balance sheet effects are shown in the notes to the accounts.

Milan, 24 March 2006

BDO Sala Scelsi Farina  
Società di Revisione per Azioni (Independent Auditing  
Company)

[Signature]  
Paolo Scelsi  
(Director)